August 29, 2012

Dear Contract Owner:

Zurich American Life Insurance Company is pleased to send your customized semi-annual report for the registered funds underlying the investment choices you have selected in your variable annuity contract. Please review these reports for a summary of the funds' operations through mid-year 2012, and related financial statements.

You may notice that this presentation differs from reports that you have received in the past. On previous occasions, you have received a single booklet that contained all of the reports for all of the underlying funds available in your variable annuity contract. With this mailing, you are receiving only those reports pertaining to the underlying funds in which you have invested Contract Value.

We think that this customized process for producing and distributing fund reports is more efficient and environmentally friendly. We hope that the enclosed information is helpful. If you have any questions concerning your contract, please do not hesitate to call our Service Center at (800) 449-0523 (toll free).

We thank you for placing your variable annuity contract with us.

Sincerely,

Richard W. Grilli
Senior Vice President and Chief Operating Officer

Zurich American
Life Insurance Company

Administrative Office:
PO Box 7728
Overland Park, KS 66207-0728

Telephone 877-301-5376
Fax 917-534-4606

ZURICHAMERICANLIFEINSURANCE.COM

ALGER

Inspired by Change, Driven by Growth.

A pooled funding vehicle for:

- **variable annuity contracts**
- **variable life insurance policies**
- **qualified pension plans**
- **qualified retirement plans**

The Alger Portfolios

Alger Balanced Portfolio

SEMI-ANNUAL REPORT

June 30, 2012

(Unaudited)

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Dear Shareholders,

July 25, 2012

Dear Shareholders,

A distorted view of reality can be costly. In one famous example, a radio broadcast depicting space aliens attacking New Jersey and New York City caused panicked listeners to hastily load their cars with emergency rations and flee to the mountains. As hysteria grew, some Americans even reported smelling poisonous gas and seeing explosions. Yet, Americans quickly learned that their efforts were pointless—the broadcast by Orson Welles was only for entertainment and not a depiction of reality. The notorious War of the Worlds broadcast of 1938, which included frequent announcements that it was for entertainment only, illustrates the hazards of perception not reflecting reality.

In some ways, many investors who fled from equities over the past few years acted like panicked Americans fleeing fictional aliens. Just as Americans ignored notices that the War of the Worlds broadcast was for entertainment only, investors who sold stocks ignored strengthening U.S. corporate fundamentals, an improving domestic economy, and other factors that have helped drive strong equity market performance. Those investors accepted media pundits' forecasts of economic gloom and according to data from fund tracker Morningstar, hastily sold equities and loaded their portfolios with cash and bonds. Indeed, Morningstar reports that redemptions from equity mutual funds since the financial crisis of 2008 have been extremely high, peaking at $278 billion in 2011. At the same time, strong U.S. corporate earnings and slow but what we believe has been significant economic growth has resulted in equities, as measured by the S&P 500 Index, generating an 82.82% return from the end of the first quarter of 2009 until June 30, 2012. Unfortunately, investors who redeemed equity fund shares during that time period may have missed participating in an estimated $49.91 billion that would have resulted if they had maintained their stock exposure.[1]

At Fred Alger Management, Inc. ("Alger"), we acknowledge that the euro-zone debt crisis, rising fuel prices, and other developments that have driven market volatility are serious concerns. We also believe, however, that investors should take a balanced and long-term approach when assessing market conditions, rather than focus on negative news and run from equity investing. For example, in a Barron's article last September, I maintained that market volatility was creating an excellent opportunity for buying equities. I reasoned that corporate fundamentals were strong, the economy was improving, and valuations, as measured by price-to-earnings ratios, were attractive. This call proved correct—from the September 3 date of the Barron's article until June 30, 2012, equities, as measured by the S&P 500 Index, returned 18.16%.

A Valuable Lesson

The reasons for the strong market performance over the past few years are many and would take many more pages to dissect. However, at Alger, we have observed for many decades how strong companies can exploit change to build their businesses and to boost their free cash flow. Fundamental to exploiting change is management's ability to adapt to developments, such as new regulations, rapid acceptance of the Internet, changing demographics, strong growth in emerging markets, and price volatility for commodities, including energy products. As an example, concerns that turmoil associated with the Arab Spring last year could disrupt oil production pushed prices of West Texas Intermediate Crude from $91.55 to $107.94 a barrel during the first quarter of 2011, striking fear that an oil shock could derail the global economic recovery. Prices eventually subsided only to climb from $102.95 in early January to $126.65 in late February before declining to $84.96 at June 30, 2012.

Many decades ago, such price volatility would disrupt company operations and push equity markets downward, but American businesses, or at least the ones that we believe are better managed, have acted to minimize the impact of energy costs. In New York City, this means that the Empire State Building is generating attention for more than its highly regarded art-deco design and its role in the movie King Kong. Impressively, recent modifications to the office facility are expected to reduce energy usage by 38%, thereby saving some $4.4 million annually. At Alger, we believe that energy price volatility is a form of disruptive change and that companies that adapt to such change will have an advantage over competitors that continue conducting business as usual. The adaptation is creating attractive investment opportunities as companies implement energy efficiency programs, create a seemingly endless assortment of energy savings products, and develop technologies for extracting energy commodities that were once inaccessible.

As oil prices soared in early 2011 and during the early portion of the six-month period ended June 30, 2012, we continued to conduct in-depth research of company fundamentals to seek compelling investment opportunities and we urged our clients to stay the course rather than sell equities. We stuck by our belief that oil price increases must be sudden and severe to spark a recession and that the U.S. is well prepared for price increases. At the time, we noted that Americans spend just slightly more than 5% of their disposable income on energy, compared to slightly more than 8% in the 1980s, according to BCA Research. Our conviction in equities proved to be correct, with the S&P 500 Index climbing 5.92% during the first quarter of 2011 and a modest, but still positive, 2.11% for that year. For the six-month period ended June 30, 2012, furthermore, the S&P 500 gained 9.49%.

Much like radio listeners who heard ongoing reports of aliens attacking, investors over the past few years heard an ongoing stream of alleged reasons for selling equity investments. Investors were deluged with claims that the euro-zone debt crisis and drastic government austerity programs in Greece and other countries could push the region into a nasty recession and curtail global economic growth. On other days, media reports claimed that slowing economic growth in China—a country that is helping to spur strong global acceleration—could weaken. Those claims missed a more encouraging and accurate view that acknowledges an improving job market with the U.S. unemployment rate dropping from 8.7% in November of 2011 to 8.1% in April of 2012. The rate climbed slightly to 8.2% in May and continued at that level in June. Nevertheless, unemployment during those two months was still considerably below the high rate in November of 2011. A more accurate view also acknowledges that corporate fundamentals remained strong and that the troubled housing market continued to improve. In October of 2011, 7.6 months of residential inventory was available, according to the National Association of Realtors. Inventory has since declined to only 6.4 months as of June of this year.

Going Forward

We think corporate fundamentals will remain strong. American businesses have done an admirable job of curtailing expenses, while job market improvements have strengthened consumers' spending clout by providing more Americans with income. Corporations' large cash balances, meanwhile, leave businesses well-positioned to invest in growth opportunities, pay dividends, and buy back stock. Also encouraging, manufacturing in the

U.S. appears to be strengthening as illustrated by Carlisle Companies, which plans to move tire manufacturing from China to the U.S., and by foreign auto manufacturers Honda Motor Co., BMW AG, and Daimler AG, all of which plan to increase production in America.

Looking ahead, the nation's lack of progress on curtailing annual budget deficits, which have been exceeding $1 trillion, and on reducing outstanding debt, which is approximately $15.50 trillion, remains a concern. We believe that a lack of clarity on addressing the problem has prevented corporations from investing their sizeable amounts of cash in growth initiatives. Additionally, as debt grows, the nation will face an increasing burden of paying creditors. Clearly, much work remains to reform taxation and government spending, but we are hopeful that elections in November will provide some indication of the direction that the nation will take to address the problem.

For the coming months, concerns over the euro zone and fuel prices may support increasing market volatility, which we believe may create an attractive buying opportunity similar to the one that emerged last summer. We believe that substantial support for equities would surface if the S&P 500 Index declined to approximately 1250. That would create a price-to-earnings (P/E) ratio of only 12 times trailing earnings, which would significantly undervalue equities relative to other asset classes like bonds or real estate. At the same time, we believe that the strengthening U.S. economy, improving economic growth in China, and investors' eventual acceptance of the euro zone's ability to stem its debt crisis should result in the continuation of a bull market in U.S. equities. We believe that such a recovery could take the S&P 500 Index to new post-financial crisis highs. We note that the S&P 500 Index at 1600 would still represent a fair valuation at a roughly 15.27% P/E ratio based on operating earnings.

That P/E would be in line with long-term historical averages. Viewed as an earnings yield, U.S. equities would still be attractively priced at a 6.55% earnings yield based on operating earnings or 6.05% based on reported earnings plus the 2.07% dividend yield as of June 30. A result of careful and cautious management, the quality of those earnings is very high. Thus, as of June 30, the S&P 500 Index free cash flow yield was 6%, which is highly attractive, especially when compared to the approximately 1.92% yield of 10-year Treasury bonds.

In the meantime, large scale developments, such as the increasing use of the Internet, the rapid growth of emerging markets, and regulatory changes, are creating compelling opportunities for leading companies to grow, which we believe is making this an attractive time for Alger to use its disciplined and research-driven strategy for finding compelling growth investments for our clients.

Portfolio Matters

The Alger Balanced Portfolio returned 2.91% for the six-month reporting period ended June 30, 2012, compared to the Russell 1000 Growth Index, which returned 10.08% and the Barclay's Capital U.S. Government/Credit Bond Index, which returned 2.65%. The equity portion of the Portfolio underperformed the Russell 1000 Growth Index and the fixed income portion of the Portfolio underperformed the Barclay's Capital U.S. Government/Credit Bond Index.

Regarding the equity portion of the Portfolio, the largest sector weightings were Information Technology and Consumer Discretionary sectors. The largest sector overweight was Consumer Discretionary and the largest sector underweight was Consumer Staples. Relative outperformance in the Financials and Utilities sectors was the most important contributor to performance, while Information Technology and Consumer Discretionary detracted from results.

Among the most important relative contributors were JPMorgan Chase & Co.; eBay, Inc.; BM&F Bovespa S/A Bolsa de Valores Mercadorias e Futuros; Comcast Corp. Cl A Special; and Dollar General Corp. eBay stock performed strongly in response to events described above in the Alger Capital Appreciation Portfolio discussion.

Conversely, detracting from overall results on a relative basis were Microsoft Corp.; NetApp, Inc.; Apple, Inc.; Nabors Industries Ltd.; and Celanese Corp. Nabors stock performed poorly in response to events described above in the Alger Capital Appreciation Portfolio discussion.

Regarding the fixed-income portion of the Portfolio, as of June 30, 2012, 81% was in corporate securities and 19% was in U.S. Treasuries. The number of securities held was reduced from 21 to 20.

In a pattern that has repeated itself several times over the past three years, economic growth has slowed significantly in 2012, following a relatively strong fourth quarter of 2011. The marginal benefits of historically low interest rates have diminished, while fiscal policymakers have been unable to overcome gridlock to provide any type of pro-growth support to this flagging expansion. Concerns over potential contagion from Europe and the pending U.S fiscal cliff have weighed on sentiment, leading to retrenchment among consumers and businesses. The result is continued strength in the Treasury market and strength across the board in corporate bonds. Since the beginning of 2012, the benchmark 10-year Treasury note has rallied significantly, resulting in a decline in yield from 1.87% to 1.49%. Institutional investors continue to hold significant cash and are having trouble finding investments due to lack of supply and low yields. While there is nothing to suggest this trend will change direction anytime soon, these historically low rates will rise at some point and shorter duration assets should outperform their longer, more sensitive counterparts. By selling into the recent strength, taking profits, and shortening the portfolio duration, we believe we should be well positioned to protect our downside should rates begin to rise and move out on the curve once yields reasonably compensate us to do so.

As always, we strive to deliver consistently superior investment results for you, our shareholders, and we thank you for your business and your continued confidence in Alger.

Respectfully submitted,

Daniel C. Chung, CFA
Chief Investment Officer

BCA Research is an independent provider of global research.
Morningstar provides research on mutual funds, equities, and other investments.

Footnotes:
[1] Estimated value was determined by applying the historical returns of the S&P 500 Index to the equity mutual fund flows for each quarter as determined by Morningstar. During the period spanning March 31, 2009 to June 30, 2012, the S&P 500 Index experienced certain periods of negative performance returns.

Investors cannot invest directly in an index. Index performance does not reflect the deduction for fees, expenses, or taxes.

This report and the financial statements contained herein are submitted for the general information of shareholders of the Portfolio. This report is not authorized for distribution to prospective investors in the Portfolios unless preceded or accompanied by an effective prospectus for the Portfolios. Portfolios' returns represent the fiscal six-month period return of Class I-2 shares. Returns include reinvestment of dividends and distributions.

The performance data quoted represents past performance, which is not an indication or guarantee of future results.

Standard performance results can be found on the following pages. The investment return and principal value of an investment in a Portfolio will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Recent performance has been impacted by an unusually strong period in the U.S. equity market and there is no guarantee that such conditions will be repeated. Current performance may be lower or higher than the performance quoted. For performance data current to the most recent month-end, visit us at www.alger.com, or call us at (800) 992-3863.

The views and opinions of the Portfolios' management in this report are as of the date of the Shareholders letter and are subject to change at any time subsequent to this date. There is no guarantee that any of the assumptions that formed the basis for the opinions stated herein are accurate or that they will materialize. Moreover, the information forming the basis for such assumptions is from sources believed to be reliable; however, there is no guarantee that such information is accurate. Any securities mentioned, whether owned in a Portfolio or otherwise, are considered in the context of the construction of an overall portfolio of securities and therefore reference to them should not be construed as a recommendation or offer to purchase or sell any such security. Inclusion of such securities in a Portfolio and transactions in such securities, if any, may be for a variety of reasons, including without limitation, in response to cash flows, inclusion in a benchmark, and risk control. The reference to a specific security should also be understood in such context and not viewed as a statement that the security is a significant holding in a portfolio. Please refer to the Schedule of Investments for each Portfolio which is included in this report for a complete list of holdings as of June 30, 2012. Securities mentioned in the Shareholders letter, if not found in the Schedule of Investments, may have been held by the Portfolios during the six-month fiscal period.

A Word About Risk
Growth stocks tend to be more volatile than other stocks as the price of growth stocks tends to be higher in relation to their companies' earnings and may be more sensitive to market, political and economic developments. Investing in the stock market involves gains and losses and may not be suitable for all investors. Stocks of small- and mid-sized companies are subject to greater risk than stocks of larger, more established companies owing to such factors as limited liquidity, inexperienced management, and limited financial

resources. Portfolios that invest in fixed-income securities, such as the Alger Balanced Portfolio, are subject to the fixed income securities' sensitivity to interest rate movements; their market values tend to fall when interest rates rise and to rise when interest rates fall. They are also subject to the risk of a decline in the value of the Portfolios' securities in the event of an issue's falling credit rating or actual default. The Portfolios that invest in mortgage and asset backed securities are subject to prepayment risk; thus the average life of the security may be less than maturity. For a more detailed discussion of the risks associated with a Portfolio, please see the Portfolio's Prospectus.

Before investing, carefully consider a fund's investment objective, risks, charges, and expenses. For a prospectus containing this and other information about The Alger Portfolios call us at (800) 992-3863 or visit us at www.alger.com. Read it carefully before investing.

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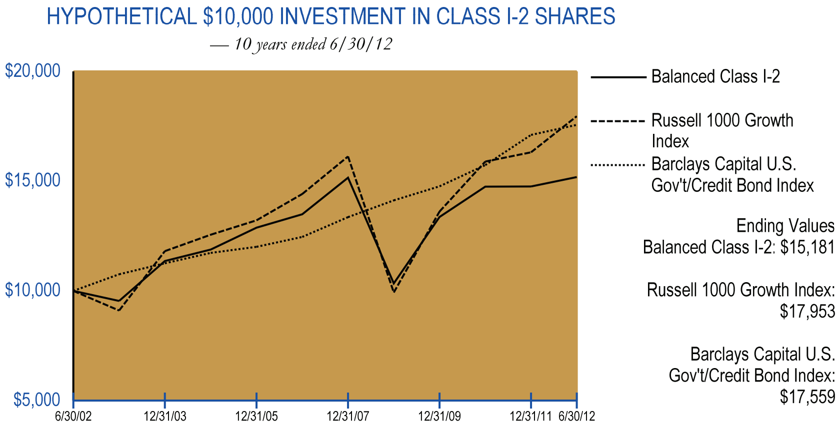
NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.

Definitions:

- Standard & Poor's 500 Index (S&P 500 Index) is an index of 500 leading companies in leading industries in the United States.
- Russell 1000 Growth Index is an unmanaged index designed to measure the performance of the largest 1,000 companies in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values.
- The Barclays Capital U.S. Government/Credit Bond Index is an index designed to track performance of government and corporate bonds.



The chart above illustrates the change in value of a hypothetical $10,000 investment made in Alger Balanced Portfolio Class I-2 shares, the Russell 1000 Growth Index (an unmanaged index of common stocks) and the Barclays Capital U.S. Gov't/Credit Bond Index (an unmanaged index of government and corporate bonds) for the ten years ended June 30, 2012. Figures for each of the Alger Balanced Portfolio Class I-2 shares, the Russell 1000 Growth Index and the Barclays Capital U.S. Gov't/Credit Bond Index include reinvestment of dividends and interest.

PERFORMANCE COMPARISON AS OF 6/30/12

AVERAGE ANNUAL TOTAL RETURNS				
	1 YEAR	5 YEARS	10 YEARS	Since 9/5/1989
Class I-2 (Inception 9/5/89)	(0.01)%	1.05%	4.26%	7.28%
Russell 1000 Growth Index	5.76%	2.87%	6.03%	7.97%
Barclays Capital U.S. Gov't/Credit Bond Index	8.78%	6.90%	5.79%	7.09%

The performance data quoted represents past performance, which is not an indication or a guarantee of future results. Investment return and principal will fluctuate and the Portfolio's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted. For updated performance, visit us at www.alger.com or call us at (800) 992-3863.

Returns indicated assume reinvestment of all distributions, no transaction costs or taxes, and are net of management fees and fund operating expenses only. Total return does not include deductions at the portfolio or contract level for cost of insurance charges, premium load, administrative charges, mortality and expense risk charges or other charges that may be incurred under the variable annuity contract, variable life insurance plan or retirement plan for which the Portfolio serves as an underlying investment vehicle. If these charges were deducted, the total return figures would be lower. Please refer to the variable insurance product or retirement plan disclosure documents for any additional applicable expenses. Investing in the stock market involves gains and losses and may not be suitable for all investors.

Portfolio Summary†

June 30, 2012 *(Unaudited)*

SECTORS/SECURITY TYPES	
Consumer Discretionary	12.8%
Consumer Staples	3.1
Energy	3.2
Financials	2.4
Health Care	7.0
Industrials	8.0
Information Technology	18.3
Materials	1.7
Total Equity Securities	56.5%
Corporate Bonds	32.3%
U.S. Government & Agency Obligations (excluding Mortgage Backed)	7.6
Total Debt Securities	39.9%
Short-Term and Net Other Assets	3.6%
	100.0%

† *Based on net assets for the Portfolio*.

COMMON STOCKS—55.8%	SHARES	VALUE
AEROSPACE & DEFENSE—2.6%		
Boeing Co., /The	12,200	$ 906,460
Precision Castparts Corp.	5,100	838,899
United Technologies Corp.	11,500	868,595
		2,613,954
AIR FREIGHT & LOGISTICS—0.7%		
United Parcel Service, Inc., Cl. B	8,600	**677,336**
AIRLINES—0.4%		
Delta Air Lines, Inc.*	33,936	**371,599**
APPAREL ACCESSORIES & LUXURY GOODS—0.4%		
Ralph Lauren Corp.	2,800	**392,168**
APPAREL RETAIL—0.6%		
Inditex SA L2	2,900	299,771
Limited Brands, Inc.	6,300	267,939
		567,710
APPLICATION SOFTWARE—2.0%		
Informatica Corp. *	10,000	423,600
Intuit, Inc.	10,900	646,915
Salesforce.com, Inc. *	4,200	580,692
ServiceNow, Inc. *	1,900	46,740
TIBCO Software, Inc. *	10,000	299,200
		1,997,147
ASSET MANAGEMENT & CUSTODY BANKS—0.5%		
T. Rowe Price Group, Inc.	8,400	**528,864**
AUTO PARTS & EQUIPMENT—0.6%		
Allison Transmission Holdings, Inc.	13,500	237,060
Delphi Automotive PLC *	15,300	390,150
		627,210
AUTO RENTAL—0.3%		
Hertz Global Holdings, Inc.*	20,200	**258,560**
BROADCASTING & CABLE TV—1.1%		
CBS Corp., Cl. B	18,900	619,542
Discovery Communications, Inc., Series A *	9,300	502,200
		1,121,742
CABLE & SATELLITE—0.4%		
DISH Network Corp.	12,500	**356,875**
CASINOS & GAMING—0.2%		
Las Vegas Sands Corp.	5,600	**243,544**
COMMUNICATIONS EQUIPMENT—2.1%		
Cisco Systems, Inc.	53,200	913,444
QUALCOMM, Inc.	19,900	1,108,032
		2,021,476
COMPUTER HARDWARE—4.7%		
Apple, Inc. *	7,300	4,263,200
Teradata Corp. *	5,200	374,452
		4,637,652

COMMON STOCKS—(CONT.)	SHARES	VALUE
COMPUTER STORAGE & PERIPHERALS—1.5%		
EMC Corp. *	22,100	$ 566,423
NetApp, Inc. *	28,000	890,960
		1,457,383
CONSTRUCTION & FARM MACHINERY & HEAVY TRUCKS—0.5%		
Caterpillar, Inc.	5,800	**492,478**
CONSUMER FINANCE—0.4%		
American Express Co.	6,900	**401,649**
DATA PROCESSING & OUTSOURCED SERVICES—0.7%		
Mastercard, Inc.	1,600	**688,176**
DIVERSIFIED CHEMICALS—0.4%		
Dow Chemical Co., /The	11,200	**352,800**
DIVERSIFIED METALS & MINING—0.5%		
Freeport-McMoRan Copper & Gold, Inc.	16,600	**565,562**
ENVIRONMENTAL & FACILITIES SERVICES—0.5%		
Stericycle, Inc.*	5,300	**485,851**
FERTILIZERS & AGRICULTURAL CHEMICALS—0.3%		
CF Industries Holdings, Inc.	1,500	**290,610**
FOOTWEAR—0.4%		
NIKE, Inc., Cl. B	4,300	**377,454**
GENERAL MERCHANDISE STORES—1.8%		
Dollar General Corp. *	15,200	826,728
Target Corp.	15,000	872,850
		1,699,578
HEALTH CARE DISTRIBUTORS—0.6%		
AmerisourceBergen Corp., Cl. A	15,400	**605,990**
HEALTH CARE EQUIPMENT—0.7%		
Covidien PLC	6,600	353,100
Stryker Corp.	5,200	286,520
		639,620
HEALTH CARE SERVICES—1.6%		
Express Scripts, Inc.*	27,900	**1,557,657**
HOME FURNISHING RETAIL—0.4%		
Bed Bath & Beyond, Inc.*	6,800	**420,240**
HOME IMPROVEMENT RETAIL—0.5%		
Lowe's Companies, Inc.	16,800	**477,792**
HOMEBUILDING—1.2%		
Lennar Corp., Cl. A	9,500	293,645
Toll Brothers, Inc. *	29,800	885,954
		1,179,599
HOTELS RESORTS & CRUISE LINES—1.3%		
Hyatt Hotels Corp., Cl. A *	20,600	765,496
Starwood Hotels & Resorts Worldwide, Inc.	8,400	445,536
		1,211,032

COMMON STOCKS—(CONT.)	SHARES	VALUE
HOUSEHOLD PRODUCTS—1.0%		
Mead Johnson Nutrition Co., Cl. A	3,300	$ 265,683
Procter & Gamble Co., /The	11,100	679,875
		945,558
INDUSTRIAL CONGLOMERATES—0.9%		
Tyco International Ltd.	15,900	**840,315**
INDUSTRIAL MACHINERY—1.3%		
Pall Corp.	13,200	723,492
SPX Corp.	8,300	542,156
		1,265,648
INTERNET RETAIL—0.7%		
Amazon.com, Inc.*	3,200	**730,720**
INTERNET SOFTWARE & SERVICES—2.6%		
eBay, Inc. *	39,350	1,653,094
Facebook, Inc. *	6,800	211,616
Google, Inc., Cl. A *	1,200	696,084
		2,560,794
IT CONSULTING & OTHER SERVICES—1.8%		
Cognizant Technology Solutions Corp., Cl. A *	8,400	504,000
International Business Machines Corp.	6,200	1,212,596
		1,716,596
LEISURE PRODUCTS—0.5%		
Coach, Inc.	8,500	**497,080**
LIFE & HEALTH INSURANCE—0.3%		
Prudential Financial, Inc.	6,200	**300,266**
MANAGED HEALTH CARE—0.9%		
Cigna Corp.	18,900	**831,600**
MOTORCYCLE MANUFACTURERS—0.7%		
Harley-Davidson, Inc.	14,600	**667,658**
MOVIES & ENTERTAINMENT—0.6%		
Walt Disney Co., /The	12,800	**620,800**
OIL & GAS EQUIPMENT & SERVICES—1.2%		
Cameron International Corp. *	13,500	576,585
Halliburton Company	20,400	579,156
		1,155,741
OIL & GAS EXPLORATION & PRODUCTION—1.4%		
Anadarko Petroleum Corp.	12,300	814,260
Pioneer Natural Resources Co.	6,900	608,649
		1,422,909
OIL & GAS REFINING & MARKETING—0.6%		
Phillips 66*	17,000	**565,080**
PHARMACEUTICALS—3.2%		
Bristol-Myers Squibb Co.	16,900	607,555
Johnson & Johnson	21,400	1,445,784
Pfizer, Inc.	31,320	720,360

COMMON STOCKS—(CONT.)	SHARES	VALUE
PHARMACEUTICALS—(CONT.)		
Teva Pharmaceutical Industries Ltd. #	10,300	$ 406,232
		3,179,931
RAILROADS—0.3%		
CSX Corp.	13,500	**301,860**
RESEARCH & CONSULTING SERVICES—0.5%		
Verisk Analytics, Inc., Cl. A*	9,700	**477,822**
RESTAURANTS—1.4%		
Chipotle Mexican Grill, Inc. *	1,900	721,905
Yum! Brands, Inc.	8,500	547,570
		1,269,475
SEMICONDUCTOR EQUIPMENT—1.4%		
ASML Holding NV#	25,900	**1,331,778**
SEMICONDUCTORS—1.2%		
Broadcom Corp., Cl. A *	12,600	425,880
Intel Corp.	27,900	743,535
		1,169,415
SOFT DRINKS—1.5%		
Coca-Cola Co., /The	12,400	969,556
PepsiCo, Inc.	7,300	515,818
		1,485,374
SPECIALIZED FINANCE—0.5%		
IntercontinentalExchange, Inc.*	3,600	**489,528**
SPECIALTY CHEMICALS—0.5%		
Celanese Corp.	13,200	**456,984**
SYSTEMS SOFTWARE—0.3%		
VMware, Inc., Cl. A*	3,500	**318,640**
TOBACCO—0.6%		
Philip Morris International, Inc.	7,200	**628,272**
TOTAL COMMON STOCKS		
(Cost $50,865,050)		**54,549,152**

MASTER LIMITED PARTNERSHIP —0.7%	SHARES	VALUE
ASSET MANAGEMENT & CUSTODY BANKS—0.7%		
KKR & Co., LP	49,100	632,899
TOTAL MASTER LIMITED PARTNERSHIP		**632,899**
(Cost $689,820)		

CORPORATE BONDS—32.3%	PRINCIPAL AMOUNT	VALUE
AGRICULTURAL PRODUCTS—1.2%		
Cargill, Inc., 6.00%, 11/27/17*,L2(a)	1,000,000	**1,190,813**
COMMUNICATIONS EQUIPMENT—1.5%		
Cisco Systems, Inc., 5.50%, 2/22/16L2	1,250,000	**1,451,701**
COMPUTER HARDWARE—4.1%		
Dell, Inc., 3.10%, 4/1/16L2	1,750,000	1,854,956

CORPORATE BONDS—(CONT.)	PRINCIPAL AMOUNT	VALUE
COMPUTER HARDWARE—(CONT.)		
Hewlett-Packard Co., 4.38%, 9/15/21 L2	$ 2,000,000	$ 2,059,455
		3,914,411
CONSTRUCTION & FARM MACHINERY & HEAVY TRUCKS—1.8%		
John Deere Capital Corp., 2.75%, 3/15/22 L2	1,750,000	**1,762,584**
DIVERSIFIED BANKS—2.5%		
Wachovia Corp., 5.75%, 2/1/18 L2	2,000,000	**2,368,546**
HEALTH CARE EQUIPMENT—2.4%		
Baxter International, Inc., 5.90%, 9/1/16 L2	2,000,000	**2,379,356**
INDUSTRIAL CONGLOMERATES—2.2%		
General Electric Capital Corp., 4.38%, 9/16/20 L2	2,000,000	**2,167,434**
INTEGRATED OIL & GAS—2.3%		
Total Capital SA, 4.45%, 6/24/20 L2	2,000,000	**2,288,756**
INTEGRATED TELECOMMUNICATION SERVICES—4.0%		
AT&T, Inc., 2.50%, 8/15/15 L2	2,000,000	2,083,582
Verizon Communications, Inc., 2.00%, 11/1/16 L2	1,800,000	1,843,907
		3,927,489
INVESTMENT BANKING & BROKERAGE—2.3%		
Goldman Sachs Group, Inc., /The, 7.50%, 2/15/19 L2	2,000,000	**2,283,826**
IT CONSULTING & OTHER SERVICES—1.6%		
International Business Machines Corp., 1.95%, 7/22/16 L2	1,525,000	**1,570,293**
OTHER DIVERSIFIED FINANCIAL SERVICES—2.1%		
JPMorgan Chase & Co., 3.45%, 3/1/16 L2	2,000,000	**2,074,740**
PACKAGED FOODS & MEATS—2.2%		
Campbell Soup Co., 3.05%, 7/15/17 L2	2,000,000	**2,159,060**
PHARMACEUTICALS—2.1%		
Abbott Laboratories, 5.88%, 5/15/16 L2	1,725,000	**2,035,800**
TOTAL CORPORATE BONDS (Cost $31,584,574)		**31,574,809**

U.S. TREASURY OBLIGATIONS —7.6%	PRINCIPAL AMOUNT	VALUE
1.50%, 12/31/13 L2	2,000,000	2,035,782
4.75%, 5/15/14 L2	2,052,000	2,221,289
4.25%, 11/15/14 L2	1,900,000	2,073,970
4.50%, 2/15/16 L2	940,000	1,073,877
TOTAL U.S. TREASURY OBLIGATIONS (Cost $7,251,127)		**7,404,918**

Total Investments (Cost $90,390,571)(b)	96.4%	94,161,778
Other Assets in Excess of Liabilities	3.6	3,491,303
NET ASSETS	100.0%	**$ 97,653,081**

‡ *Securities classified as Level 1 for ASC 820 disclosure purposes based on valuation inputs unless otherwise noted. See Notes 2 and 8 to the Financial Statements.*

* *Non-income producing security.*
\# *American Depository 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 1.2% of the net assets of the Fund.
(b) At June 30, 2012, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $90,415,155, amounted to $3,746,623 which consisted of aggregate gross unrealized appreciation of $7,254,236 and aggregate gross unrealized depreciation of $3,507,613.
L2 Security classified as Level 2 for ASC 820 disclosure purposes based on valuation inputs.

See Notes to Financial Statements.

Statement of Assets and Liabilities *(Unaudited) June 30, 2012*

ASSETS:		
Investments in securities, at value (Identified cost)* see accompanying schedule of investments	$	94,161,778
Cash and cash equivalents		3,123,497
Receivable for investment securities sold		1,650,400
Receivable for shares of beneficial interest sold		273,012
Dividends and interest receivable		439,652
Prepaid expenses		12,730
Total Assets		99,661,069
LIABILITIES:		
Payable for investment securities purchased		1,813,404
Payable for interfund loans		—
Payable for shares of beneficial interest redeemed		82,587
Accrued investment advisory fees		56,380
Accrued transfer agent fees		2,434
Accrued administrative fees		2,184
Accrued shareholder servicing fees		794
Accrued other expenses		50,205
Total Liabilities		2,007,988
NET ASSETS	**$**	**97,653,081**
Net Assets Consist of:		
Paid in capital		115,510,980
Undistributed net investment income		174,230
Accumulated net realized loss		(21,803,335)
Net unrealized appreciation on investments		3,771,206
NET ASSETS	**$**	**97,653,081**
Net Asset Value Per Share		
Class I-2		$11.47
Net Assets By Class		
Class I-2	$	97,653,081
Shares of Benefical Interest Outstanding— Note 6 (Par Value $.001)		
Class I-2		8,515,640
*Identified Cost	$	90,390,571

See Notes to Financial Statements.

Statement of Operations *(Unaudited)*

For the six months ended June 30, 2012

INCOME:		
Dividends (net of foreign withholding taxes*)	$	415,417
Interest		389,296
Total Income		804,713
EXPENSES		
Advisory fees—Note 3(a)		362,141
Administrative fees—Note 3(a)		14,026
Custodian fees		12,860
Fund accounting fees		19,631
Transfer agent fees and expenses—Note 3(c)		12,701
Printing fees		18,650
Professional fees		13,377
Registration fees		17,539
Trustee fees—Note 3(d)		9,537
Miscellaneous		7,760
Total Expenses		488,222
NET INVESTMENT INCOME		316,491
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OPTIONS AND FOREIGN CURRENCY TRANSACTIONS:		
Net realized gain on investments and purchased options		707,133
Net realized gain on redemption-in-kind		—
Net realized loss on foreign currency transactions		(2,067)
Net change in unrealized appreciation (depreciation) on investments and foreign currency		1,971,650
Net realized and unrealized gain on investments, options and foreign currency		2,676,716
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**2,993,207**
*Foreign withholding taxes	$	5,584

 See Notes to Financial Statements.

		For the Six Months Ended June 30, 2012 (Unaudited)		For the Year Ended December 31, 2011
Net investment income	$	316,491	$	1,341,209
Net realized gain on investments, options and foreign currency transactions		705,066		5,410,127
Net change in unrealized appreciation (depreciation) on investments, options and foreign currency		1,971,650		(6,385,639)
Net increase in net assets resulting from operations		2,993,207		365,697
Dividends and distributions to shareholders from:				
Net investment income				
Class I-2		(1,383,662)		(3,172,728)
Net realized gains				
Class I-2		—		—
Total dividends and distributions to shareholders		(1,383,662)		(3,172,728)
Increase (decrease) from shares of beneficial interest transactions:				
Class I-2		(5,767,736)		(15,185,365)
Net decrease from shares of beneficial interest transactions—Note 6		(5,767,736)		(15,185,365)
Total decrease		(4,158,191)		(17,992,396)
Net Assets:				
Beginning of period		101,811,272		119,803,668
END OF PERIOD	**$**	**97,653,081**	**$**	**101,811,272**
Undistributed net investment income	$	174,230	$	1,254,434

See Notes to Financial Statements.

Alger Balanced Portfolio

	Class I-2					
	Six months ended 6/30/2012(i)	Year ended 12/31/2011	Year ended 12/31/2010	Year ended 12/31/2009	Year ended 12/31/2008	Year ended 12/31/2007
Net asset value, beginning of period	$ 11.31	$ 11.61	$ 10.79	$ 8.64	$ 14.61	$ 14.11
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income(ii)	0.04	0.14	0.28	0.25	0.26	0.26
Net realized and unrealized gain (loss) on investments	0.28	(0.12)	0.82	2.21	(4.35)	1.41
Total from investment operations	0.32	0.02	1.10	2.46	(4.09)	1.67
Dividends from net investment income	(0.16)	(0.32)	(0.28)	(0.31)	(0.33)	(0.31)
Distributions from net realized gains	—	—	—	—	(1.55)	(0.86)
Net asset value, end of period	$ 11.47	$ 11.31	$ 11.61	$ 10.79	$ 8.64	$ 14.61
Total return	2.91%	0.03%	10.33%	29.25%	(31.76)%	12.37%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000's omitted)	$ 97,653	$ 101,811	$ 119,804	$ 127,756	$ 118,759	$ 224,090
Ratio of gross expenses to average net assets	0.96%	0.93%	0.91%	0.89%	0.85%	0.84%
Ratio of expense reimbursements to average net assets	0.00%	(0.04)%	(0.04)%	(0.04)%	(0.04)%	(0.04)%
Ratio of net expenses to average net assets	0.96%	0.89%	0.87%	0.85%	0.81%	0.80%
Ratio of net investment income to average net assets	0.62%	1.20%	2.60%	2.60%	2.19%	1.79%
Portfolio turnover rate	68.63%	102.79%	69.30%	104.04%	76.32%	103.77%

(i) *Unaudited. Ratios have been annualized; total return and portfolio turnover rate have not been annualized.*
(ii) *Ratios have been annualized; total return and portfolio turnover rate have not been annualized.*

 See Notes to Financial Statements.

NOTE 1 — General:

The Alger Portfolios (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 seven series of shares of beneficial interest: the Alger Capital Appreciation Portfolio, Alger Large Cap Growth Portfolio, Alger Mid Cap Growth Portfolio, Alger SMid Cap Growth Portfolio, Alger Small Cap Growth Portfolio, Alger Growth & Income Portfolio, and Alger Balanced Portfolio (collectively the "Portfolios"). These financial statements include only the Alger Balanced Portfolio (the "Portfolio"). The Portfolio's investment objective is 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 to investment vehicles for variable annuity contracts and variable life insurance policies offered by separate accounts of life insurance companies, as well as qualified pension and retirement plans.

The Portfolio offers Class I-2 shares.

NOTE 2 — Significant Accounting Policies:

(a) Investment Valuation: The Portfolio values its financial instruments at fair value using independent dealers or pricing services under policies approved by the Funds Board of Trustees. 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).

Equity securities and option contracts for which such information is readily available are valued at the last reported sales price or official closing price as reported by an independent pricing service on the primary market or exchange on which they are traded. In the absence of reported sales, securities are valued at a price within the bid and ask price or, in the absence of a recent bid or ask price, the equivalent as obtained from one or more of the major market makers for the securities to be valued.

Debt securities generally trade in the over-the-counter market. Securities with remaining maturities of more than sixty days at the time of acquisition are valued on the basis of last available bid prices or current market quotations provided by dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrixes, market transactions in comparable investments, various relationships observed in the market between investments and calculated yield measures based on valuation technology commonly employed in the market for such investments. Asset-backed and mortgage-backed securities are valued by independent pricing services using models that consider estimated cash flows of each tranche of the security, establish a benchmark yield and develop an estimated tranche-specific spread to the benchmark yield based on the unique attributes of the tranche. Debt securities with a remaining maturity of sixty days or less are valued at amortized cost which approximates market value.

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 in which the Portfolio invests may be traded in foreign markets that close before the close of the NYSE. Developments that occur between the close of the foreign markets and the close of the NYSE may result in adjustments to the closing prices to reflect what the investment adviser, pursuant to policies established by the Board of Trustees, believes to be the fair value of these securities as of the close of the NYSE. The Portfolio may also fair value securities in other situations, for example, when a particular foreign market is closed but the Portfolio is open.

Financial Accounting Standards Board Accounting Standards Codification 820 – Fair Value Measurements and Disclosures ("ASC 820") defines fair value as the price that the Portfolio would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. "Inputs" refer broadly to the assumptions that market participants would use in pricing the asset or liability and may be observable or unobservable. Observable inputs are based on market data obtained from sources independent of the Portfolio. Unobservable inputs are inputs that reflect the Portfolio's, own assumptions based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad Levels listed below.

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – significant other observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Portfolio's, own assumptions in determining the fair value of investments)

The Portfolio's valuation techniques are consistent with the market approach whereby prices and other relevant information generated by market transactions involving identical or comparable assets are used to measure fair value. Inputs for Level 1 include exchange-listed prices and broker quotes in an active market. Inputs for Level 2 include the last trade price in the case of a halted security, an exchange-listed price which has been adjusted for fair value factors, and prices of closely related securities. Additional Level 2 inputs include an evaluated price which is based upon on a compilation of observable market information such as spreads for fixed income and preferred securities. Valuation techniques for Level 3 securities include using the income approach whereby future amounts are converted, or discounted, to a current single amount. These fair value measurements are determined on the basis of the value indicated by current market expectations about such future events. Inputs for Level 3 include unobservable market information which can include cash flows and other information obtained from a company's financial statements, or from market indicators such as benchmarks and indices.

Valuation processes are determined by a Valuation Committee ("Committee") established by the Trust's Board of Trustees ("Board") and comprised of representatives of the Trust's investment advisor. The Committee reports its valuation determinations to the Board which is responsible for approving valuation policy and procedures.

The Committee meets quarterly to review and evaluate the effectiveness of the procedures for making fair value determinations. The Committee considers, among other things, the results of quarterly back testing of the fair value model for foreign securities, pricing comparisons between primary and secondary price sources, the outcome of price challenges put to the Portfolio's pricing vendor, and variances between transactional prices and previous mark-to-markets.

The Portfolio will record a change to a security's fair value level if new inputs are available or it becomes evident that inputs previously considered for leveling have changed or are no longer relevant. Transfers between Levels 1 and 2 are recognized at the end of the reporting period, and transfers into and out of Level 3 are recognized during the reporting period.

(b) Cash and Cash Equivalents: Cash and cash equivalents include U.S. dollars and overnight time deposits.

(c) Security Transactions and Investment Income: Security transactions are recorded on a trade date basis. 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.

(d) Foreign Currency Transactions: The books and records of the Portfolio are maintained in U.S. dollars. Foreign currencies, investments and other assets and liabilities are translated into U.S. dollars at the prevailing rates of exchange on the valuation date. Purchases and sales of investment securities and income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of such transactions.

Net realized gains and losses on foreign currency transactions represent net gains and losses from the disposition of foreign currencies, currency gains and losses realized between the trade dates and settlement dates of security transactions, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. The effects of changes in foreign currency exchange rates on investments in securities are included in realized and unrealized gain or loss on investments in the Statement of Operations.

(e) Option Contracts: When a Portfolio writes an option, an amount equal to the premium received by the Portfolio is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Portfolio on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated

as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a written call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Portfolio has realized a gain or loss. If a written put option is exercised, the premium reduces the cost basis of the securities purchased by the Portfolio. The Portfolio as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option.

The Portfolio may also purchase put and call options. The Portfolio pays a premium which is included in the Portfolio's Statement of Assets and Liabilities as an investment and subsequently marked to market to reflect the current value of the option. Premiums paid for purchasing options which expire are treated as realized losses. The risk of loss associated with purchasing put and call options is limited to the premium paid. Premiums paid for purchasing options which are exercised or closed are added to the amounts paid or offset against the proceeds on the underlying security to determine the realized gain or loss.

(f) Dividends to Shareholders: Dividends and distributions 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.

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, premium/discount of debt securities, realized gain or loss from foreign currency transactions, and realized gains from redemptions in kind, if any. The reclassifications are done annually at year end and have no impact on the net asset values of the Portfolio and were designed to present the Portfolio's capital accounts on a tax basis.

(g) Federal Income Taxes: It is the Portfolio's policy to comply with the requirements of the Internal Revenue Code Subchapter M applicable to regulated investment companies and to distribute all of the taxable income, including net realized capital gains, of the Portfolio to its shareholders. Therefore, no federal income tax provision is required.

Financial Accounting Standards Board Accounting Standards Codification 740 – Income Taxes ("ASC 740") requires the Portfolio to measure and recognize in its financial statements the benefit of a tax position taken (or expected to be taken) on an income tax return if such position will more likely than not be sustained upon examination based on the technical merits of the position. No tax years are currently under investigation. The Portfolio files income tax returns in the U.S. Federal jurisdiction, as well as the New York State and New York City jurisdictions. The statute of limitations on the Portfolio's tax returns remains open for the tax years 2007-2011. Management does not believe there are any uncertain tax positions that require recognition of a tax liability.

(h) Allocation Methods: The Fund accounts separately for the assets, liabilities and operations of each Portfolio. Expenses directly attributable to each Portfolio are charged to that Portfolio's operations; expenses which are applicable to all Portfolios are allocated among them based on net assets.

(i) Estimates: These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require using estimates and assumptions that affect the reported amounts therein. Actual results may differ from those estimates. These unaudited interim financial statements reflect all adjustments which are, in the opinion of management, necessary to a present a fair statement of results for the interim period. All such adjustments are of a normal recurring nature.

NOTE 3 — Investment Advisory Fees and Other Transactions with Affiliates:

(a) Investment Advisory and Administration Fees: Fees incurred by the Portfolio, pursuant to the provisions of the Fund's Investment Advisory Agreement and Administration Agreement with Fred Alger Management, Inc. ("Alger Management" or "Manager"), are payable monthly and computed based on the average daily net assets of the Portfolio at the following annual rate:

	Advisory Fee	Administration Fee
Alger Balanced Portfolio	.710%	.0275%

(b) Brokerage Commissions: During the six months ended June 30, 2012, the Portfolio paid Alger Inc. $33,539, in connection with securities transactions.

(c) Shareholder Administrative Fees: The Fund has entered into a shareholder administrative services agreement with Alger Management to compensate Alger Management for its liaison and administrative oversight of Boston Financial Data Services, Inc., the transfer agent, and other related services. The Portfolio compensates Alger Management at the annual rate of 0.01% of the average daily net assets for these services. For the six months ended June 30, 2012, the Portfolio incurred fees of $5,101, for these services, which are included in transfer agent fees and expenses in the Statements of Operations.

(d) Trustee Fees: The Portfolio pays each trustee who is not affiliated with Alger Management or its affiliates $750 for each meeting attended, to a maximum of $3,000 per annum, plus travel expenses incurred for attending the meeting. The chairman of the Board of Trustees receives an additional annual fee of $15,000 which is paid, pro rata, by all funds managed by Alger Management. Additionally, each member of the audit committee receives an additional $75 for each audit committee meeting attended, to a maximum of $300 per annum.

(e) Interfund Loans: The Portfolio, along with other funds advised by Alger Management, may borrow money from and lend money to each other for temporary or emergency

purposes. To the extent permitted under its investment restrictions, the Portfolio may lend uninvested cash in an amount up to 15% of its net assets to other Portfolios. If the Portfolio has borrowed from other Portfolios and has aggregate borrowings from all sources that exceed 10% of the Portfolio's total assets, the Portfolio will secure all of its loans from other Portfolios. The interest rate charged on interfund loans is equal to the average of the overnight time deposit rate and bank loan rate available to the Portfolios. There were no interfund loans outstanding during the six months ended June 30, 2012.

(f) Other Transactions With Affiliates: Certain trustees and officers of the Fund are directors and officers of Alger Management and the Distributor.

NOTE 4 — Securities Transactions:

Purchases and sales of securities, other than U.S. Government and short-term securities, for the six months ended June 30, 2012, were as follows:

	PURCHASES	SALES
Alger Balanced Portfolio	$66,233,684	$67,448,292

NOTE 5 — Borrowing:

The Portfolio may borrow from its custodian on an uncommitted basis. The Portfolio pays the custodian a market rate of interest, generally based upon the London Inter-Bank Offered Rate. The Portfolio may also borrow from other portfolios advised by Alger Management, as discussed in Note 3(e). For the six months ended June 30, 2012, the Portfolio had no borrowings.

NOTE 6 — Share Capital:

The Fund has an unlimited number of authorized shares of beneficial interest of $.001 par value for each share class. During the six months ended June 30, 2012 and the year ended December 31, 2011, transactions of shares of beneficial interest were as follows:

	FOR THE SIX MONTHS ENDED JUNE 30, 2012		FOR THE YEAR ENDED DECEMBER 31, 2011	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Balanced Portfolio				
Class I-2:				
Shares sold	284,806	$ 3,347,001	525,369	$ 6,025,454
Dividends reinvested	118,161	1,383,661	270,941	3,172,728
Shares redeemed	(893,123)	(10,498,398)	(2,113,803)	(24,383,547)
Net decrease	**(490,156)**	**$ (5,767,736)**	**(1,317,493)**	**$ (15,185,365)**

NOTE 7 — Income Tax Information:

At December 31, 2011, 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 Dates		Alger Balanced Portfolio
2017	$	22,492,224
Total		22,492,224

Net capital losses incurred after October 31 and within the taxable year are deemed to arise on the first business day of the Portfolio's next taxable year.

Under the recently enacted Regulated Investment Company Modernization Act of 2010, capital losses incurred by the Portfolio on or after January 1, 2011 will not be subject to expiration. In addition, losses incurred on or after January 1, 2011 must be utilized prior to the utilization of capital loss carryforwards above.

The difference between book-basis and tax-basis unrealized appreciation (depreciation) is determined annually and is attributable primarily to the tax deferral of losses on wash sales, the tax treatment of premium/discount on debt securities, the tax treatment of partnership investments, the realization of unrealized appreciation of Passive Foreign Investments Companies, and return of capital from Real Estate Investment Trust investments.

NOTE 8 — Fair Value Measurements:

The major categories of securities and their respective fair value inputs are detailed in each Portfolio's Schedule of Investments. The following is a summary of the inputs used as of June 30, 2012 in valuing the Portfolio's investments carried at fair value on a recurring basis. Based upon the nature, characteristics, and risks associated with its investments, the Portfolio has determined that presenting them by security type and sector is appropriate.

Alger Balanced Portfolio	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
COMMON STOCKS				
Consumer Discretionary	$ 12,460,677	$ 12,160,906	$ 299,771	—
Consumer Staples	3,059,204	3,059,204	—	—
Energy	3,143,730	3,143,730	—	—
Financials	1,720,307	1,720,307	—	—
Health Care	6,814,798	6,814,798	—	—
Industrials	7,785,423	7,785,423	—	—
Information Technology	17,899,057	17,899,057	—	—
Materials	1,665,956	1,665,956	—	—
TOTAL COMMON STOCKS	**$ 54,549,152**	**$ 54,249,381**	**$ 299,771**	**—**
CORPORATE BONDS				
Consumer Staples	$ 3,349,873	—	$ 3,349,873	—
Energy	2,288,756	—	2,288,756	—
Financials	6,727,112	—	6,727,112	—
Health Care	4,415,156	—	4,415,156	—
Industrials	3,930,018	—	3,930,018	—
Information Technology	6,936,405	—	6,936,405	—
Telecommunication Services	3,927,489	—	3,927,489	—
TOTAL CORPORATE BONDS	**$ 31,574,809**	**—**	**$ 31,574,809**	**—**

Alger Balanced Portfolio	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
U.S. GOVERNMENT & AGENCY OBLIGATIONS (EXCLUDING MORTGAGE-BACKED)				
U.S. Treasury Notes	$ 7,404,918	—	$ 7,404,918	—
MASTER LIMITED PARTNERSHIP				
Financials	$ 632,899	$ 632,899	—	—
TOTAL INVESTMENTS IN SECURITIES	**$ 94,161,778**	**$ 54,882,280**	**$ 39,279,498**	**—**

For the six months ended June 30, 2012, the Portfolio transferred securities totaling $299,771 from Level 1 to Level 2 because the US market's volatility between the close of the market and the time the Portfolio's NAV is determined exceeded an approved threshold, and by utilizing fair value adjusted prices rather than exchange listed prices.

NOTE 9 — Derivatives:

Financial Accounting Standards Board Accounting Standards Codification 815 – Derivatives and Hedging ("ASC 815") requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

Forward currency contracts—In connection with portfolio purchases and sales of securities denominated in foreign currencies, the Portfolio may enter into forward currency contracts. Additionally, the Portfolio may enter into such contracts to economically hedge certain other foreign currency denominated investments. These contracts are valued at the current cost of covering or offsetting such contracts, and the related realized and unrealized foreign exchange gains and losses are included in the statement of operations. In the event that counterparties fail to settle these currency contracts or the related foreign security trades, the Portfolio could be exposed to foreign currency fluctuations.

Options—The Portfolio seeks to capture the majority of the returns associated with equity market investments. To meet this investment goal, the Portfolio invests in a broadly diversified portfolio of common stocks, while also buying and selling call and put options on equities and equity indices. The Portfolio purchases call options to increase its exposure to stock market risk and also provide diversification of risk. The Portfolio purchases put options in order to protect from significant market declines that may occur over a short period of time. The Portfolio will write covered call and cash secured put options to generate cash flows while reducing the volatility of the portfolio. The cash flows may be an important source of the Portfolio's return, although written call options may reduce the Portfolio's ability to profit from increases in the value of the underlying security or equity portfolio. The value of a call option generally increases as the price of the underlying stock increases and decreases as the stock decreases in price. Conversely, the value of a put option generally increases as the price of the underlying stock decreases and decreases as the stock increases in price. The combination of the diversified stock portfolio and the purchase and sale of options is intended to provide the Portfolio with the majority of the returns associated with equity market investments but with reduced volatility and returns that are augmented with the cash flows from the sale of options.

During the six months ended June 30, 2012, written equity and index put options were used in accordance with this objective.

During the six months ended June 30, 2012, the Portfolio had no derivative instruments.

NOTE 10 — Litigation:

On August 31, 2005, the West Virginia Securities Commissioner (the "WVSC"), in an ex parte Summary Order to Cease and Desist and Notice of Right to Hearing, concluded that the Manager and the Distributor had violated the West Virginia Uniform Securities Act (the "WVUSA"), and ordered the Manager and the Distributor to cease and desist from further violations of the WVUSA by engaging in the market-timing-related conduct described in the order. The ex parte order provided notice of their right to a hearing with respect to the violations of law asserted by the WVSC. Other firms unaffiliated with the Manager were served with similar orders. The Manager and the Distributor intend to request a hearing for the purpose of seeking to vacate or modify the order.

NOTE 11 — Recent Accounting Pronouncements:

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities (“ASU 2011-11”), which provides guidance regarding balance sheet offsetting disclosures. The amendments in ASU 2011-11 require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effects of those arrangements on its financial position. Entities are required to disclose gross information and net information about both instruments and transactions eligible for offset in the statement of assets and liabilities and transactions subject to an agreement similar to a master netting arrangement. The objective of ASU 2011-11 is to facilitate comparison between those entities that prepare their financial statements on the basis of GAAP and those entities that prepare their financial statements on the basis of IFRS. The new guidance is effective for annual reporting periods beginning on or after January 1, 2013. The Fund does not believe that this will have a material impact on the financial statements.

NOTE 12 — Subsequent Event:

Management of the Portfolio has evaluated events that have occurred subsequent to June 30, 2012. No such events have been identified which require recognition and disclosure.

Shareholder Expense Example

As a shareholder of a 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 a 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, 2012 and ending June 30, 2012.

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 a 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 or deduction of insurance charges against assets or annuities. 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, 2012	Ending Account Value June 30, 2012	Expenses Paid During the Six Months Ended June 30, 2012(a)	Annualized Expense Ratio
Alger Balanced Portfolio					
Class I-2	Actual	$ 1,000.00	$ 1,029.05	$ 4.83	0.96%
	Hypothetical(b)	1,000.00	1,020.11	4.81	0.96

(a) Expenses are equal to the annualized expense ratio of the respective share class, multiplied by the average account value over the period, multiplied by 182/366 (to reflect the one-half year period).

(b) 5% annual return before expenses.

Privacy Policy

FACTS	WHAT DOES ALGER DO WITH YOUR PERSONAL INFORMATION?
Why?	Financial companies choose how they share your personal information, which, under Federal law, means personally identifiable information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.
What?	The types of personal information we collect and share depend on the product or service you have with us. This information can include: • Social Security number • account balances, transaction history and credit information
How?	All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons Alger chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does Alger share?	Can you limit this sharing?
For our everyday business purposes — such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	**Yes**	**No**
For our marketing purposes — with service providers we use to offer our products and services to you	**Yes**	**No**
For joint marketing with other financial companies	**No**	**We don't share**
For our affiliates' everyday business purposes—information about your transactions and experiences	**Yes**	**No**
For our affiliates' everyday business purposes—information about your creditworthiness	**No**	**We don't share**
For nonaffiliates to market to you — for all credit card accounts	**No**	**We don't share**
For nonaffiliates to market to you — for accounts and services endorsed by another organization	**No**	**We don't share**
For nonaffiliates to market to you — for accounts other than credit card accounts and Sponsored Accounts, such as insurance, investments, deposit and lending	**No**	**We don't share**

What we do	
How does Alger protect my personal information?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings. For more information visit alger.com.
How does Alger collect my personal information?	We collect your personal information, for example, when you: • open an account or perform transactions • seek advice about your investments We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.
Why can't I limit all sharing?	Federal law gives you the right to limit some but not all sharing related to: • sharing for affiliates' everyday business purposes — information about your creditworthiness • affiliates from using your information to market to you • sharing for nonaffiliates to market to you State laws and individual companies may give you additional rights to limit sharing.

Definitions	
Affiliates	Companies related by common ownership or control. They can be financial and nonfinancial companies. • Our affiliates include Fred Alger Management, Inc. and Fred Alger & Company, Incorporated as well as the following funds: The Alger Funds, The Alger Funds II, The Alger Institutional Funds, The Alger Portfolios, and Alger China-U.S. Growth Fund.
Nonaffiliates	Companies not related by common ownership or control. They can be financial and nonfinancial companies
Joint marketing	A formal agreement between nonaffiliated financial companies that together market financial products or services to you.

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

Fund Holdings

The Portfolio's most recent month end portfolio holdings are available approximately sixty days after month end on the Fund's website at www.alger.com. The Portfolio also 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 SEC's website at www.sec.gov or 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 PORTFOLIOS

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New York, NY 10010
(800) 992-3862
www.alger.com

Investment Advisor

Fred Alger Management, Inc.
360 Park Avenue South
New York, NY 10010

Distributor

Fred Alger & Company, Incorporated
360 Park Avenue South
New York, NY 10010

Transfer Agent and Dividend Disbursing Agent

Boston Financial Data Services, Inc.
P.O. Box 8480
Boston, MA 02266

This report is submitted for the general information of the shareholders of The Alger Portfolios. It is not authorized for distribution to prospective investors unless accompanied by an effective Prospectus for the Trust, which contains information concerning the Trust's investment policies, fees and expenses as well as other pertinent information.

ALGER

Inspired by Change, Driven by Growth.

ALGER

Inspired by Change, Driven by Growth.

A pooled funding vehicle for:

- variable annuity contracts
- variable life insurance policies
- qualified pension plans
- qualified retirement plans

The Alger Portfolios

Alger Capital Appreciation Portfolio

SEMI-ANNUAL REPORT

June 30, 2012

(Unaudited)

Table of Contents

Dear Shareholders,

A distorted view of reality can be costly. In one famous example, a radio broadcast depicting space aliens attacking New Jersey and New York City caused panicked listeners to hastily load their cars with emergency rations and flee to the mountains. As hysteria grew, some Americans even reported smelling poisonous gas and seeing explosions. Yet, Americans quickly learned that their efforts were pointless—the broadcast by Orson Welles was only for entertainment and not a depiction of reality. The notorious War of the Worlds broadcast of 1938, which included frequent announcements that it was for entertainment only, illustrates the hazards of perception not reflecting reality.

In some ways, many investors who fled from equities over the past few years acted like panicked Americans fleeing fictional aliens. Just as Americans ignored notices that the War of the Worlds broadcast was for entertainment only, investors who sold stocks ignored strengthening U.S. corporate fundamentals, an improving domestic economy, and other factors that have helped drive strong equity market performance. Those investors accepted media pundits' forecasts of economic gloom and according to data from fund tracker Morningstar, hastily sold equities and loaded their portfolios with cash and bonds. Indeed, Morningstar reports that redemptions from equity mutual funds since the financial crisis of 2008 have been extremely high, peaking at $278 billion in 2011. At the same time, strong U.S. corporate earnings and slow but what we believe has been significant economic growth has resulted in equities, as measured by the S&P 500 Index, generating an 82.82% return from the end of the first quarter of 2009 until June 30, 2012. Unfortunately, investors who redeemed equity fund shares during that time period may have missed participating in an estimated $49.91 billion that would have resulted if they had maintained their stock exposure.[1]

At Fred Alger Management, Inc. ("Alger"), we acknowledge that the euro-zone debt crisis, rising fuel prices, and other developments that have driven market volatility are serious concerns. We also believe, however, that investors should take a balanced and long-term approach when assessing market conditions, rather than focus on negative news and run from equity investing. For example, in a Barron's article last September, I maintained that market volatility was creating an excellent opportunity for buying equities. I reasoned that corporate fundamentals were strong, the economy was improving, and valuations, as measured by price-to-earnings ratios, were attractive. This call proved correct—from the September 3 date of the Barron's article until June 30, 2012, equities, as measured by the S&P 500 Index, returned 18.16%.

A Valuable Lesson

The reasons for the strong market performance over the past few years are many and would take many more pages to dissect. However, at Alger, we have observed for many decades how strong companies can exploit change to build their businesses and to boost their free cash flow. Fundamental to exploiting change is management's ability to adapt to developments, such as new regulations, rapid acceptance of the Internet, changing demographics, strong growth in emerging markets, and price volatility for commodities, including energy products. As an example, concerns that turmoil associated with the Arab Spring last year could disrupt oil production pushed prices of West Texas Intermediate Crude from $91.55 to $107.94 a barrel during the first quarter of 2011, striking fear that an oil shock could derail the global economic recovery. Prices eventually subsided only to climb from $102.95 in early January to $126.65 in late February before declining to $84.96 at June 30, 2012.

Many decades ago, such price volatility would disrupt company operations and push equity markets downward, but American businesses, or at least the ones that we believe are better managed, have acted to minimize the impact of energy costs. In New York City, this means that the Empire State Building is generating attention for more than its highly regarded art-deco design and its role in the movie King Kong. Impressively, recent modifications to the office facility are expected to reduce energy usage by 38%, thereby saving some $4.4 million annually. At Alger, we believe that energy price volatility is a form of disruptive change and that companies that adapt to such change will have an advantage over competitors that continue conducting business as usual. The adaptation is creating attractive investment opportunities as companies implement energy efficiency programs, create a seemingly endless assortment of energy savings products, and develop technologies for extracting energy commodities that were once inaccessible.

As oil prices soared in early 2011 and during the early portion of the six-month period ended June 30, 2012, we continued to conduct in-depth research of company fundamentals to seek compelling investment opportunities and we urged our clients to stay the course rather than sell equities. We stuck by our belief that oil price increases must be sudden and severe to spark a recession and that the U.S. is well prepared for price increases. At the time, we noted that Americans spend just slightly more than 5% of their disposable income on energy, compared to slightly more than 8% in the 1980s, according to BCA Research. Our conviction in equities proved to be correct, with the S&P 500 Index climbing 5.92% during the first quarter of 2011 and a modest, but still positive, 2.11% for that year. For the six-month period ended June 30, 2012, furthermore, the S&P 500 gained 9.49%.

Much like radio listeners who heard ongoing reports of aliens attacking, investors over the past few years heard an ongoing stream of alleged reasons for selling equity investments. Investors were deluged with claims that the euro-zone debt crisis and drastic government austerity programs in Greece and other countries could push the region into a nasty recession and curtail global economic growth. On other days, media reports claimed that slowing economic growth in China—a country that is helping to spur strong global acceleration—could weaken. Those claims missed a more encouraging and accurate view that acknowledges an improving job market with the U.S. unemployment rate dropping from 8.7% in November of 2011 to 8.1% in April of 2012. The rate climbed slightly to 8.2% in May and continued at that level in June. Nevertheless, unemployment during those two months was still considerably below the high rate in November of 2011. A more accurate view also acknowledges that corporate fundamentals remained strong and that the troubled housing market continued to improve. In October of 2011, 7.6 months of residential inventory was available, according to the National Association of Realtors. Inventory has since declined to only 6.4 months as of June of this year.

Going Forward

We think corporate fundamentals will remain strong. American businesses have done an admirable job of curtailing expenses, while job market improvements have strengthened consumers' spending clout by providing more Americans with income. Corporations' large cash balances, meanwhile, leave businesses well-positioned to invest in growth opportunities, pay dividends, and buy back stock. Also encouraging, manufacturing in the

U.S. appears to be strengthening as illustrated by Carlisle Companies, which plans to move tire manufacturing from China to the U.S., and by foreign auto manufacturers Honda Motor Co., BMW AG, and Daimler AG, all of which plan to increase production in America.

Looking ahead, the nation's lack of progress on curtailing annual budget deficits, which have been exceeding $1 trillion, and on reducing outstanding debt, which is approximately $15.50 trillion, remains a concern. We believe that a lack of clarity on addressing the problem has prevented corporations from investing their sizeable amounts of cash in growth initiatives. Additionally, as debt grows, the nation will face an increasing burden of paying creditors. Clearly, much work remains to reform taxation and government spending, but we are hopeful that elections in November will provide some indication of the direction that the nation will take to address the problem.

For the coming months, concerns over the euro zone and fuel prices may support increasing market volatility, which we believe may create an attractive buying opportunity similar to the one that emerged last summer. We believe that substantial support for equities would surface if the S&P 500 Index declined to approximately 1250. That would create a price-to-earnings (P/E) ratio of only 12 times trailing earnings, which would significantly undervalue equities relative to other asset classes like bonds or real estate. At the same time, we believe that the strengthening U.S. economy, improving economic growth in China, and investors' eventual acceptance of the euro zone's ability to stem its debt crisis should result in the continuation of a bull market in U.S. equities. We believe that such a recovery could take the S&P 500 Index to new post-financial crisis highs. We note that the S&P 500 Index at 1600 would still represent a fair valuation at a roughly 15.27% P/E ratio based on operating earnings.

That P/E would be in line with long-term historical averages. Viewed as an earnings yield, U.S. equities would still be attractively priced at a 6.55% earnings yield based on operating earnings or 6.05% based on reported earnings plus the 2.07% dividend yield as of June 30. A result of careful and cautious management, the quality of those earnings is very high. Thus, as of June 30, the S&P 500 Index free cash flow yield was 6%, which is highly attractive, especially when compared to the approximately 1.92% yield of 10-year Treasury bonds.

In the meantime, large scale developments, such as the increasing use of the Internet, the rapid growth of emerging markets, and regulatory changes, are creating compelling opportunities for leading companies to grow, which we believe is making this an attractive time for Alger to use its disciplined and research-driven strategy for finding compelling growth investments for our clients.

Portfolio Matters

The Alger Capital Appreciation Portfolio returned 11.22% for the six-month reporting period ended June 30, 2012, compared to the Russell 1000 Growth Index return of 10.08%.

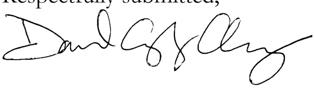
During the period, the largest sector weightings were Information Technology and Consumer Discretionary. The largest sector overweight was Consumer Discretionary and the largest sector underweight was Consumer Staples. Relative outperformance in the Consumer Discretionary and Information Technology sectors was the most important contributor to performance, while Consumer Staples and Energy detracted from results.

Among the most important relative contributors were Apple, Inc.; eBay, Inc.; Seagate Technology PLC; Expedia, Inc.; and CVS Caremark Corp. eBay stock performed strongly during the second half of the reporting period. The company announced that it had generated healthy results with its online payment network and that growth with its web-based marketplace had accelerated.

Conversely, detracting from overall results on a relative basis were Nabors Industries Ltd.; Anadarko Petroleum Corp.; KBR, Inc.; Riverbed Technology, Inc.; and priceline.com, Inc. Nabors performs land drilling for oil and gas companies, and investors during the later part of the reporting period became concerned that a decline in energy commodity prices may result in lower oilfield activity and increased price competition for drilling services.

As always, we strive to deliver consistently superior investment results for you, our shareholders, and we thank you for your business and your continued confidence in Alger.

Respectfully submitted,



Daniel C. Chung, CFA
Chief Investment Officer

BCA Research is an independent provider of global research.
Morningstar provides research on mutual funds, equities, and other investments.

Footnotes:
[1] Estimated value was determined by applying the historical returns of the S&P 500 Index to the equity mutual fund flows for each quarter as determined by Morningstar. During the period spanning March 31, 2009 to June 30, 2012, the S&P 500 Index experienced certain periods of negative performance returns.

Investors cannot invest directly in an index. Index performance does not reflect the deduction for fees, expenses, or taxes.

This report and the financial statements contained herein are submitted for the general information of shareholders of the Portfolio. This report is not authorized for distribution to prospective investors in the Portfolios unless preceded or accompanied by an effective prospectus for the Portfolios. Portfolios' returns represent the fiscal six-month period return of Class I-2 shares. Returns include reinvestment of dividends and distributions.

The performance data quoted represents past performance, which is not an indication or guarantee of future results.

Standard performance results can be found on the following pages. The investment return and principal value of an investment in a Portfolio will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Recent performance has been impacted by an unusually strong period in the U.S. equity market and there is no guarantee that such conditions will be repeated. Current performance may be lower or higher than the performance quoted. For performance data current to the most recent month-end, visit us at www.alger.com, or call us at (800) 992-3863.

The views and opinions of the Portfolios' management in this report are as of the date of the Shareholders letter and are subject to change at any time subsequent to this date. There is no guarantee that any of the assumptions that formed the basis for the opinions stated herein are accurate or that they will materialize. Moreover, the information forming the basis for such assumptions is from sources believed to be reliable; however, there is no guarantee that such information is accurate. Any securities mentioned, whether owned in a Portfolio or otherwise, are considered in the context of the construction of an overall portfolio of securities and therefore reference to them should not be construed as a recommendation or offer to purchase or sell any such security. Inclusion of such securities in a Portfolio and transactions in such securities, if any, may be for a variety of reasons, including without limitation, in response to cash flows, inclusion in a benchmark, and risk control. The reference to a specific security should also be understood in such context and not viewed as a statement that the security is a significant holding in a portfolio. Please refer to the Schedule of Investments for each Portfolio which is included in this report for a complete list of holdings as of June 30, 2012. Securities mentioned in the Shareholders letter, if not found in the Schedule of Investments, may have been held by the Portfolios during the six-month fiscal period.

A Word About Risk

Growth stocks tend to be more volatile than other stocks as the price of growth stocks tends to be higher in relation to their companies' earnings and may be more sensitive to market, political and economic developments. Investing in the stock market involves gains and losses and may not be suitable for all investors. Stocks of small- and mid-sized companies are subject to greater risk than stocks of larger, more established companies owing to such factors as limited liquidity, inexperienced management, and limited financial resources. Portfolios that participate in leveraging, such as the Alger Capital Appreciation Portfolio, are subject to the risk that borrowing money to leverage will exceed the returns for securities purchased or that the securities purchased may actually go down in value; thus, Portfolio net asset values can decrease more quickly than if a Portfolio had not borrowed. For a more detailed discussion of the risks associated with a Portfolio, please see the Portfolio's Prospectus.

Before investing, carefully consider a fund's investment objective, risks, charges, and expenses. For a prospectus containing this and other information about The Alger Portfolios call us at (800) 992-3863 or visit us at www.alger.com. Read it carefully before investing.

Fred Alger & Company, Incorporated, Distributor. Member NYSE Euronext, SIPC.

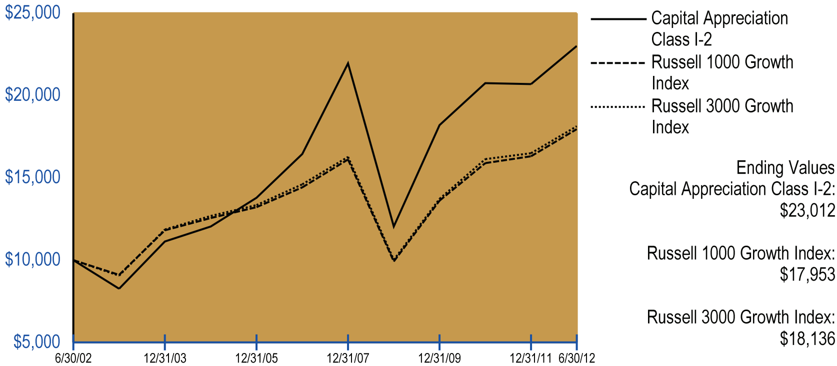
NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.

Definitions:

- Standard & Poor's 500 Index (S&P 500 Index) is an index of 500 leading companies in leading industries in the United States.
- Russell 3000 Growth Index measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on the total market capitalization, which represents 99% of the U.S. Equity Market.
- Russell 1000 Growth Index is an unmanaged index designed to measure the performance of the largest 1,000 companies in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values.

HYPOTHETICAL $10,000 INVESTMENT IN CLASS I-2 SHARES

— 10 years ended 6/30/12



The chart above illustrates the change in value of a hypothetical $10,000 investment made in Alger Capital Appreciation Portfolio Class I-2 shares, the Russell 1000 Growth Index and the Russell 3000 Growth Index (unmanaged indexes of common stocks) for the ten years ended June 30, 2012. Figures for the Alger Capital Appreciation Portfolio Class I-2, shares the Russell 1000 Growth Index and the Russell 3000 Growth Index include reinvestment of dividends. Performance for Alger Capital Appreciation Portfolio Class S shares will be lower than the results shown above due to the higher expenses that class bears.

PERFORMANCE COMPARISON AS OF 6/30/12

AVERAGE ANNUAL TOTAL RETURNS

	1 YEAR	5 YEARS	10 YEARS	Since 1/25/1995
Class I-2 (Inception 1/25/95)	3.42%	4.01%	8.69%	12.38%
Class S (Inception 5/1/02) (i)	3.06%	3.70%	8.39%	12.11%
Russell 1000 Growth Index	5.76%	2.87%	6.03%	7.52%
Russell 3000 Growth Index	5.05%	2.79%	6.13%	7.32%

The performance data quoted represents past performance, which is not an indication or a guarantee of future results. Investment return and principal will fluctuate and the Portfolio's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted. For updated performance, visit us at www.alger.com or call us at (800) 992-3863.

Returns indicated assume reinvestment of all distributions, no transaction costs or taxes, and are net of management fees and fund operating expenses only. Total return does not include deductions at the portfolio or contract level for cost of insurance charges, premium load, administrative charges, mortality and expense risk charges or other charges that may be incurred under the variable annuity contract, variable life insurance plan or retirement plan for which the Portfolio serves as an underlying investment vehicle. If these charges were deducted, the total return figures would be lower. Please refer to the variable insurance product or retirement plan disclosure documents for any additional applicable expenses. Investing in the stock market involves gains and losses and may not be suitable for all investors.

(i) *Since inception returns are calculated from Class I-2 inception date. Class S shares returns prior to their commencement of operations are that of Class I-2 shares adjusted to reflect the higher expenses of Class S shares.*

Portfolio Summary†

December 31, 2011 *(Unaudited)*

SECTORS	
Consumer Discretionary	16.5%
Consumer Staples	8.6
Energy	5.7
Financials	8.2
Health Care	13.5
Industrials	14.3
Information Technology	24.8
Materials	3.2
Telecommunication Services	2.2
Short-Term and Net Other Assets	3.0
	100.0%

† *Based on net assets for the Portfolio*.

COMMON STOCKS—96.6%	SHARES	VALUE
ADVERTISING—0.6%		
Focus Media Holding Ltd.#	85,191	$ **2,000,285**
AEROSPACE & DEFENSE—4.2%		
Boeing Co., /The	38,400	2,853,120
General Dynamics Corp.	18,500	1,220,260
Goodrich Corp.	9,600	1,218,240
Honeywell International, Inc.	97,100	5,422,064
Precision Castparts Corp.	10,700	1,760,043
United Technologies Corp.	26,900	2,031,757
		14,505,484
AIR FREIGHT & LOGISTICS—1.1%		
United Parcel Service, Inc., Cl. B	47,900	**3,772,604**
AIRLINES—0.3%		
United Continental Holdings, Inc.*	40,900	**995,097**
APPAREL ACCESSORIES & LUXURY GOODS—0.8%		
PVH Corp.	18,500	1,439,115
Ralph Lauren Corp.	8,300	1,162,498
		2,601,613
APPLICATION SOFTWARE—0.6%		
Salesforce.com, Inc.*	14,100	**1,949,466**
ASSET MANAGEMENT & CUSTODY BANKS—0.7%		
Affiliated Managers Group, Inc. *	8,500	930,325
Blackstone Group LP	125,200	1,636,364
		2,566,689
AUTO PARTS & EQUIPMENT—0.5%		
Delphi Automotive PLC *	12,100	308,550
WABCO Holdings, Inc. *	27,838	1,473,465
		1,782,015
AUTO RENTAL—0.4%		
Hertz Global Holdings, Inc.*	110,300	**1,411,840**
BIOTECHNOLOGY—1.4%		
Gilead Sciences, Inc. *	36,400	1,866,593
Merrimack Pharmaceuticals, Inc. /Restricted *,L2,(a)	129,055	892,544
United Therapeutics Corp. *	30,585	1,510,287
Vertex Pharmaceuticals, Inc. *	8,200	458,544
		4,727,968
BROADCASTING & CABLE TV—1.1%		
CBS Corp., Cl. B	113,700	**3,727,086**
BUILDING PRODUCTS—0.1%		
Owens Corning*	15,100	**430,954**
CASINOS & GAMING—0.6%		
Las Vegas Sands Corp.	45,000	**1,957,050**
COMMUNICATIONS EQUIPMENT—2.6%		
Cisco Systems, Inc.	186,000	3,193,620
QUALCOMM, Inc.	106,900	5,952,192
		9,145,812

COMMON STOCKS—(CONT.)	SHARES	VALUE
COMPUTER HARDWARE—7.8%		
Apple, Inc.*	46,200	**$ 26,980,799**
COMPUTER STORAGE & PERIPHERALS—1.2%		
EMC Corp. *	115,000	2,947,450
NetApp, Inc. *	33,300	1,059,606
		4,007,056
CONSTRUCTION & ENGINEERING—1.0%		
KBR, Inc.	67,600	1,670,396
Quanta Services, Inc. *	68,100	1,639,167
		3,309,563
CONSTRUCTION & FARM MACHINERY & HEAVY TRUCKS—1.0%		
Caterpillar, Inc.	28,722	2,438,785
Joy Global, Inc.	18,800	1,066,524
		3,505,309
DATA PROCESSING & OUTSOURCED SERVICES—1.0%		
Mastercard, Inc.	7,800	**3,354,858**
DIVERSIFIED BANKS—0.7%		
Wells Fargo & Co.	71,800	**2,400,992**
DIVERSIFIED CHEMICALS—0.6%		
Eastman Chemical Co.	40,100	**2,019,837**
DIVERSIFIED METALS & MINING—0.6%		
Freeport-McMoRan Copper & Gold, Inc.	64,500	**2,197,515**
DRUG RETAIL—1.9%		
CVS Caremark Corp.	137,500	**6,425,375**
EDUCATION SERVICES—0.3%		
New Oriental Education & Technology Group#*	46,500	**1,139,250**
ELECTRICAL COMPONENTS & EQUIPMENT—1.2%		
Cooper Industries PLC, CL. A	59,600	**4,063,528**
ELECTRONIC MANUFACTURING SERVICES—0.2%		
IPG Photonics Corp.*	19,500	**850,005**
FOOTWEAR—0.3%		
NIKE, Inc., Cl. B	13,300	**1,167,474**
GENERAL MERCHANDISE STORES—1.0%		
Dollar General Corp. *	60,200	3,274,278
Target Corp.	3,600	209,484
		3,483,762
HEALTH CARE EQUIPMENT—1.5%		
Covidien PLC	63,200	3,381,200
Gen-Probe, Inc. *	10,800	887,760
Insulet Corp. *	51,400	1,098,418
		5,367,378
HEALTH CARE FACILITIES—0.8%		
Tenet Healthcare Corporation *	103,200	540,768
Universal Health Services, Inc., Cl. B	51,700	2,231,372
		2,772,140

COMMON STOCKS—(CONT.)	SHARES	VALUE
HEALTH CARE SERVICES—2.1%		
Express Scripts, Inc.*	129,800	$ **7,246,734**
HOME IMPROVEMENT RETAIL—2.2%		
Lowe's Companies, Inc.	271,900	**7,732,836**
HOTELS RESORTS & CRUISE LINES—0.4%		
Wyndham Worldwide Corporation	24,400	**1,286,856**
HOUSEHOLD PRODUCTS—1.1%		
Procter & Gamble Co., /The	61,100	**3,742,375**
HUMAN RESOURCE & EMPLOYMENT SERVICES—0.3%		
Towers Watson & Co.	17,900	**1,072,210**
INDUSTRIAL CONGLOMERATES—1.2%		
Tyco International Ltd.	78,000	**4,122,300**
INDUSTRIAL MACHINERY—1.0%		
Stanley Black & Decker, Inc.	56,000	**3,604,160**
INTEGRATED TELECOMMUNICATION SERVICES—0.4%		
Verizon Communications, Inc.	34,400	**1,528,736**
INTERNET RETAIL—3.8%		
Amazon.com, Inc. *	40,770	9,309,830
Expedia, Inc.	41,300	1,985,291
priceline.com, Inc. *	2,600	1,727,752
		13,022,873
INTERNET SOFTWARE & SERVICES—4.1%		
Baidu, Inc. #*	4,300	494,414
eBay, Inc. *	96,500	4,053,965
Equinix, Inc. *	11,000	1,932,150
Google, Inc., Cl. A *	11,100	6,438,777
Sina Corp. *	5,800	300,498
VistaPrint NV *	34,200	1,104,660
		14,324,464
IT CONSULTING & OTHER SERVICES—3.8%		
Accenture Ltd.	27,400	1,646,466
Cognizant Technology Solutions Corp., Cl. A *	39,600	2,376,000
International Business Machines Corp.	47,500	9,290,050
		13,312,516
LIFE & HEALTH INSURANCE—0.6%		
Prudential Financial, Inc.	43,400	**2,101,862**
LIFE SCIENCES TOOLS & SERVICES—1.0%		
Life Technologies Corp. *	48,600	2,186,514
Thermo Fisher Scientific, Inc.	26,700	1,385,997
		3,572,511
MANAGED HEALTH CARE—1.9%		
Aetna, Inc.	33,200	1,287,164
Cigna Corp.	23,500	1,034,000
UnitedHealth Group, Inc.	74,500	4,358,250
		6,679,414

COMMON STOCKS—(CONT.)	SHARES	VALUE
MORTGAGE REITS—1.5%		
American Capital Agency Corp.	158,100	$ **5,313,741**
MOVIES & ENTERTAINMENT—2.9%		
News Corp., Cl. A	323,700	7,215,273
Viacom, Inc., Cl. B	17,800	836,956
Walt Disney Co., /The	43,500	2,109,750
		10,161,979
OIL & GAS EQUIPMENT & SERVICES—1.7%		
Halliburton Company	125,100	3,551,589
National Oilwell Varco, Inc.	16,300	1,050,372
Weatherford International Ltd. *	113,900	1,438,557
		6,040,518
OIL & GAS EXPLORATION & PRODUCTION—3.8%		
Anadarko Petroleum Corp.	85,900	5,686,580
Cabot Oil & Gas Corp.	23,400	921,960
ConocoPhillips	72,900	4,073,652
Pioneer Natural Resources Co.	25,900	2,284,639
		12,966,831
OIL & GAS REFINING & MARKETING—0.2%		
Valero Energy Corp.	30,200	**729,330**
OTHER DIVERSIFIED FINANCIAL SERVICES—1.3%		
Citigroup, Inc.	79,300	2,173,613
JPMorgan Chase & Co.	61,441	2,195,287
		4,368,900
PAPER PRODUCTS—0.1%		
International Paper Co.	17,200	**497,252**
PHARMACEUTICALS—4.8%		
Bristol-Myers Squibb Co.	110,700	3,979,665
Johnson & Johnson	87,800	5,931,768
Pfizer, Inc.	192,300	4,422,900
Sanofi #	51,600	1,949,448
		16,283,781
RAILROADS—1.3%		
CSX Corp.	207,400	**4,637,464**
REGIONAL BANKS—0.3%		
Regions Financial Corp.	164,300	**1,109,025**
RESEARCH & CONSULTING SERVICES—0.4%		
Verisk Analytics, Inc., Cl. A*	30,700	**1,512,282**
RESIDENTIAL REITS—0.5%		
Home Properties, Inc.	30,566	**1,875,530**
RESTAURANTS—1.7%		
McDonald's Corp.	41,700	3,691,701
Starbucks Corp.	41,500	2,212,780
		5,904,481
SEMICONDUCTOR EQUIPMENT—1.8%		
ASML Holding NV #	49,600	2,550,432

COMMON STOCKS—(CONT.)	SHARES	VALUE
SEMICONDUCTOR EQUIPMENT—(CONT.)		
Lam Research Corp. *	94,100	$ 3,551,334
		6,101,766
SEMICONDUCTORS—1.7%		
Avago Technologies Ltd.	50,000	1,795,000
Broadcom Corp., Cl. A *	57,800	1,953,640
ON Semiconductor Corp. *	50,100	355,710
Skyworks Solutions, Inc. *	71,300	1,951,481
		6,055,831
SOFT DRINKS—3.4%		
Coca-Cola Co., /The	60,700	4,746,133
PepsiCo, Inc.	101,800	7,193,188
		11,939,321
SPECIALIZED FINANCE—1.5%		
IntercontinentalExchange, Inc.*	38,100	**5,180,838**
SPECIALIZED REITS—0.7%		
American Tower Corp., Cl. A	32,700	**2,286,057**
SPECIALTY CHEMICALS—1.9%		
Celanese Corp.	31,400	1,087,068
Cytec Industries, Inc.	33,933	1,989,831
LyondellBasell Industries NV	33,000	1,328,910
Rockwood Holdings, Inc.	37,100	1,645,385
Sherwin Williams Co., /The	2,400	317,640
		6,368,834
SPECIALTY STORES—0.3%		
Dick's Sporting Goods, Inc.	24,500	**1,176,000**
TOBACCO—2.2%		
Philip Morris International, Inc.	87,900	**7,670,154**
TRADING COMPANIES & DISTRIBUTORS—0.8%		
United Rentals, Inc. *	42,000	1,429,680
WESCO International, Inc. *	21,600	1,243,080
		2,672,760
WIRELESS TELECOMMUNICATION SERVICES—1.8%		
SBA Communications Corp. *	43,980	2,509,059
Vodafone Group PLC #	132,200	3,725,396
		6,234,455
TOTAL COMMON STOCKS		
(Cost $318,272,212)		**335,055,781**

MASTER LIMITED PARTNERSHIP —0.4%	SHARES	VALUE
ASSET MANAGEMENT & CUSTODY BANKS—0.4%		
Carlyle Group LP, /The*	56,600	$ 1,268,406
TOTAL MASTER LIMITED PARTNERSHIP (Cost $1,245,200)		**1,268,406**

Total Investments (Cost $319,517,412)(b)	97.0%	336,324,187
Other Assets in Excess of Liabilities	3.0	10,347,028
NET ASSETS	100.0%	**$ 346,671,215**

‡ *Securities classified as Level 1 for ASC 820 disclosure purposes based on valuation inputs unless otherwise noted. See Notes 2 and 8 to the Financial Statements.*

* *Non-income producing security.*
\# *American Depository Receipts.*
(a) Pursuant to Securities and Exchange Commission Rule 144 deemed illiquid until eligible for sale on September 25, 2012. Security was acquired on April 6, 2011 for a cost of $903,385 and represents 0.3% of the net assets of the Fund.
(b) At June 30, 2012, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $321,978,536, amounted to $14,345,651 which consisted of aggregate gross unrealized appreciation of $28,996,141 and aggregate gross unrealized depreciation of $14,650,490.
L2 Security classified as Level 2 for ASC 820 disclosure purposes based on valuation inputs.

See Notes to Financial Statements.

Statement of Assets and Liabilities *(Unaudited) June 30, 2012*

ASSETS:		
Investments in securities, at value (Identified cost)* see accompanying schedule of investments	$	336,324,187
Cash and cash equivalents		10,564,910
Receivable for investment securities sold		9,038,671
Receivable for shares of beneficial interest sold		318,992
Dividends and interest receivable		519,593
Prepaid expenses		15,323
Total Assets		356,781,676
LIABILITIES:		
Payable for investment securities purchased		9,413,599
Payable for interfund loans		—
Payable for shares of beneficial interest redeemed		359,654
Accrued investment advisory fees		225,052
Accrued transfer agent fees		4,359
Accrued distribution fees		2,791
Accrued administrative fees		7,641
Accrued shareholder servicing fees		2,778
Accrued other expenses		94,587
Total Liabilities		10,110,461
NET ASSETS	**$**	**346,671,215**
Net Assets Consist of:		
Paid in capital		340,734,617
Undistributed net investment income		897,770
Accumulated net realized loss		(11,767,947)
Net unrealized appreciation on investments		16,806,775
NET ASSETS	**$**	**346,671,215**
Net Asset Value Per Share		
Class I-2		$57.66
Class S		$56.30
Net Assets By Class		
Class I-2	$	333,237,950
Class S	$	13,433,265
Shares of Benefical Interest Outstanding— Note 6 (Par Value $.001)		
Class I-2		5,779,856
Class S		238,580
*Identified Cost	$	319,517,412

 See Notes to Financial Statements.

Statement of Operations *(Unaudited)*

For the six months ended June 30, 2012

INCOME:		
Dividends (net of foreign withholding taxes*)	$	2,620,422
Interest		3,509
Total Income		2,623,931
EXPENSES		
Advisory fees—Note 3(a)		1,403,858
Distribution fees Class S—Note 3(b)		17,269
Administrative fees—Note 3(a)		47,662
Custodian fees		33,080
Fund accounting fees		35,898
Transfer agent fees and expenses—Note 3(d)		35,611
Printing fees		44,760
Professional fees		21,162
Registration fees		22,455
Trustee fees—Note 3(e)		9,668
Miscellaneous		19,307
Total Expenses		1,690,730
NET INVESTMENT INCOME		933,201
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OPTIONS AND FOREIGN CURRENCY TRANSACTIONS:		
Net realized gain on investments and purchased options		16,937,679
Net realized gain on redemption-in-kind		—
Net realized loss on foreign currency transactions		(2,387)
Net change in unrealized appreciation (depreciation) on investments and foreign currency		16,792,346
Net realized and unrealized gain on investments, options and foreign currency		33,727,638
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**34,660,839**
*Foreign withholding taxes	$	28,449

See Notes to Financial Statements.

		For the Six Months Ended June 30, 2012 (Unaudited)		For the Year Ended December 31, 2011
Net investment income	$	933,201	$	798,286
Net realized gain on investments, options and foreign currency transactions		16,935,292		24,013,938
Net change in unrealized appreciation (depreciation) on investments, options and foreign currency		16,792,346		(25,798,285)
Net increase (decrease) in net assets resulting from operations		34,660,839		(986,061)
Dividends and distributions to shareholders from:				
Net investment income				
Class I-2		(704,294)		(309,449)
Class S		—		—
Net realized gains				
Class I-2		—		—
Class S		—		—
Total dividends and distributions to shareholders		(704,294)		(309,449)
Increase (decrease) from shares of beneficial interest transactions:				
Class I-2		4,298,421		13,246,492
Class S		58,593		(578,230)
Net increase from shares of beneficial interest transactions—Note 6		4,357,014		12,668,262
Total increase		38,313,559		11,372,752
Net Assets:				
Beginning of period		308,357,656		296,984,904
END OF PERIOD	**$**	**346,671,215**	**$**	**308,357,656**
Undistributed net investment income	$	897,770	$	712,938

 See Notes to Financial Statements.

Alger Capital Appreciation Portfolio

	Class I-2					
	Six months ended 6/30/2012(i)	Year ended 12/31/2011	Year ended 12/31/2010	Year ended 12/31/2009	Year ended 12/31/2008	Year ended 12/31/2007
Net asset value, beginning of period	$ 51.96	$ 52.16	$ 45.92	$ 30.39	$ 55.39	$ 41.48
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income (loss)(ii)	0.16	0.15	0.08	0.18	0.05	(0.07)
Net realized and unrealized gain (loss) on investments	5.66	(0.29)	6.34	15.35	(25.05)	13.98
Total from investment operations	5.82	(0.14)	6.42	15.53	(25.00)	13.91
Dividends from net investment income	(0.12)	(0.06)	(0.18)	—	—	—
Net asset value, end of period	$ 57.66	$ 51.96	$ 52.16	$ 45.92	$ 30.39	$ 55.39
Total return	11.22%	(0.30)%	14.03%	51.10%	(45.13)%	33.53%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000's omitted)	$ 333,238	$ 296,320	$ 284,225	$ 249,483	$ 183,335	$ 414,959
Ratio of gross expenses to average net assets	0.96%	0.97%	0.98%	0.99%	0.95%	0.97%
Ratio of expense reimbursements to average net assets	0.00%	(0.03)%	(0.04)%	(0.04)%	(0.04)%	(0.04)%
Ratio of net expenses to average net assets	0.96%	0.94%	0.94%	0.95%	0.91%	0.93%
Ratio of net investment income to average net assets	0.55%	0.28%	0.17%	0.49%	0.12%	(0.15)%
Portfolio turnover rate	77.70%	156.27%	203.56%	285.33%	317.72%	254.03%

(i) *Unaudited. Ratios have been annualized; total return and portfolio turnover rate have not been annualized.*
(ii) *Amount was computed based on average shares outstanding during the period.*

Alger Capital Appreciation Portfolio

	Class S					
	Six months ended 6/30/2012(i)	Year ended 12/31/2011	Year ended 12/31/2010	Year ended 12/31/2009	Year ended 12/31/2008	Year ended 12/31/2007
Net asset value, beginning of period	$ 50.72	$ 51.04	$ 45.01	$ 29.86	$ 54.57	$ 40.97
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income (loss)(ii)	0.06	(0.04)	(0.08)	0.08	(0.05)	(0.16)
Net realized and unrealized gain (loss) on investments	5.52	(0.28)	6.20	15.07	(24.66)	13.76
Total from investment operations	5.58	(0.32)	6.12	15.15	(24.71)	13.60
Dividends from net investment income	—	—	(0.09)	—	—	—
Net asset value, end of period	$ 56.30	$ 50.72	$ 51.04	$ 45.01	$ 29.86	$ 54.57
Total return	11.02%	(0.63)%	13.63%	50.69%	(45.28)%	33.20%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000's omitted)	$ 13,433	$ 12,038	$ 12,760	$ 13,307	$ 9,369	$ 20,783
Ratio of gross expenses to average net assets	1.29%	1.31%	1.34%	1.24%	1.20%	1.22%
Ratio of expense reimbursements to average net assets	0.00%	(0.03)%	(0.04)%	(0.04)%	(0.04)%	(0.04)%
Ratio of net expenses to average net assets	1.29%	1.28%	1.30%	1.20%	1.16%	1.18%
Ratio of net investment income to average net assets	0.22%	(0.07)%	(0.18)%	0.23%	(0.12)%	(0.34)%
Portfolio turnover rate	77.70%	156.27%	203.56%	285.33%	317.72%	254.03%

(i) *Unaudited. Ratios have been annualized; total return and portfolio turnover rate have not been annualized.*
(ii) *Amount was computed based on average shares outstanding during the period.*

 See Notes to Financial Statements.

NOTE 1 — General:

The Alger Portfolios (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 seven series of shares of beneficial interest: the Alger Capital Appreciation Portfolio, Alger Large Cap Growth Portfolio, Alger Mid Cap Growth Portfolio, Alger SMid Cap Growth Portfolio, Alger Small Cap Growth Portfolio, Alger Growth & Income Portfolio, and Alger Balanced Portfolio (collectively the "Portfolios"). These financial statements include only the Alger Capital Appreciation 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 to investment vehicles for variable annuity contracts and variable life insurance policies offered by separate accounts of life insurance companies, as well as qualified pension and retirement plans.

The Portfolio offers Class I-2 shares 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: The Portfolio values its financial instruments at fair value using independent dealers or pricing services under policies approved by the Funds Board of Trustees. 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).

Equity securities and option contracts for which such information is readily available are valued at the last reported sales price or official closing price as reported by an independent pricing service on the primary market or exchange on which they are traded. In the absence of reported sales, securities are valued at a price within the bid and ask price or, in the absence of a recent bid or ask price, the equivalent as obtained from one or more of the major market makers for the securities to be valued.

Debt securities generally trade in the over-the-counter market. Securities with remaining maturities of more than sixty days at the time of acquisition are valued on the basis of last available bid prices or current market quotations provided by dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrixes, market transactions in comparable investments, various relationships observed in the market between investments and calculated yield measures based on valuation technology commonly employed in the market for such investments. Asset-backed and mortgage-backed securities are valued by independent pricing services using models that consider estimated cash flows of each tranche of the security, establish a benchmark yield and develop an estimated tranche-specific spread to the benchmark yield based on the unique attributes of the tranche. Debt securities with a remaining maturity of sixty days or less are valued at amortized cost which approximates market value.

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 in which the Portfolio invests may be traded in foreign markets that close before the close of the NYSE. Developments that occur between the close of the foreign markets and the close of the NYSE may result in adjustments to the closing prices to reflect what the investment adviser, pursuant to policies established by the Board of Trustees, believes to be the fair value of these securities as of the close of the NYSE. The Portfolio may also fair value securities in other situations, for example, when a particular foreign market is closed but the Portfolio is open.

Financial Accounting Standards Board Accounting Standards Codification 820 – Fair Value Measurements and Disclosures ("ASC 820") defines fair value as the price that the Portfolio would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. "Inputs" refer broadly to the assumptions that market participants would use in pricing the asset or liability and may be observable or unobservable. Observable inputs are based on market data obtained from sources independent of the Portfolio. Unobservable inputs are inputs that reflect the Portfolio's, own assumptions based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad Levels listed below.

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – significant other observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Portfolio's, own assumptions in determining the fair value of investments)

The Portfolio's valuation techniques are consistent with the market approach whereby prices and other relevant information generated by market transactions involving identical or comparable assets are used to measure fair value. Inputs for Level 1 include exchange-listed prices and broker quotes in an active market. Inputs for Level 2 include the last trade price in the case of a halted security, an exchange-listed price which has been adjusted for fair value factors, and prices of closely related securities. Additional Level 2 inputs include an evaluated price which is based upon on a compilation of observable market information such as spreads for fixed income and preferred securities. Valuation techniques for Level 3 securities include using the income approach whereby future amounts are converted, or discounted, to a current single amount. These fair value measurements are determined on the basis of the value indicated by current market expectations about such future events. Inputs for Level 3 include unobservable market information which can include cash flows and other information obtained from a company's financial statements, or from market indicators such as benchmarks and indices.

Valuation processes are determined by a Valuation Committee ("Committee") established by the Trust's Board of Trustees ("Board") and comprised of representatives of the Trust's investment advisor. The Committee reports its valuation determinations to the Board which is responsible for approving valuation policy and procedures.

The Committee meets quarterly to review and evaluate the effectiveness of the procedures for making fair value determinations. The Committee considers, among other things, the results of quarterly back testing of the fair value model for foreign securities, pricing comparisons between primary and secondary price sources, the outcome of price challenges put to the Portfolio's pricing vendor, and variances between transactional prices and previous mark-to-markets.

The Portfolio will record a change to a security's fair value level if new inputs are available or it becomes evident that inputs previously considered for leveling have changed or are no longer relevant. Transfers between Levels 1 and 2 are recognized at the end of the reporting period, and transfers into and out of Level 3 are recognized during the reporting period.

(b) Cash and Cash Equivalents: Cash and cash equivalents include U.S. dollars and overnight time deposits.

(c) Security Transactions and Investment Income: Security transactions are recorded on a trade date basis. 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.

(d) Foreign Currency Transactions: The books and records of the Portfolio are maintained in U.S. dollars. Foreign currencies, investments and other assets and liabilities are translated into U.S. dollars at the prevailing rates of exchange on the valuation date. Purchases and sales of investment securities and income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of such transactions.

Net realized gains and losses on foreign currency transactions represent net gains and losses from the disposition of foreign currencies, currency gains and losses realized between the trade dates and settlement dates of security transactions, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. The effects of changes in foreign currency exchange rates on investments in securities are included in realized and unrealized gain or loss on investments in the Statement of Operations.

(e) Option Contracts: When a Portfolio writes an option, an amount equal to the premium received by the Portfolio is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Portfolio on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated

as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a written call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Portfolio has realized a gain or loss. If a written put option is exercised, the premium reduces the cost basis of the securities purchased by the Portfolio. The Portfolio as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option.

The Portfolio may also purchase put and call options. The Portfolio pays a premium which is included in the Portfolio's Statement of Assets and Liabilities as an investment and subsequently marked to market to reflect the current value of the option. Premiums paid for purchasing options which expire are treated as realized losses. The risk of loss associated with purchasing put and call options is limited to the premium paid. Premiums paid for purchasing options which are exercised or closed are added to the amounts paid or offset against the proceeds on the underlying security to determine the realized gain or loss.

(f) Dividends to Shareholders: Dividends and distributions 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 from net investment income 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, premium/discount of debt securities, realized gain or loss from foreign currency transactions, and realized gains from redemptions in kind, if any. The reclassifications are done annually at year end and have no impact on the net asset values of the Portfolio and were designed to present the Portfolio's capital accounts on a tax basis.

(g) Federal Income Taxes: It is the Portfolio's policy to comply with the requirements of the Internal Revenue Code Subchapter M applicable to regulated investment companies and to distribute all of the taxable income, including net realized capital gains, of the Portfolio to its shareholders. Therefore, no federal income tax provision is required.

Financial Accounting Standards Board Accounting Standards Codification 740 – Income Taxes ("ASC 740") requires the Portfolio to measure and recognize in its financial statements the benefit of a tax position taken (or expected to be taken) on an income tax return if such position will more likely than not be sustained upon examination based on the technical merits of the position. No tax years are currently under investigation. The Portfolio files income tax returns in the U.S. Federal jurisdiction, as well as the New York State and New York City jurisdictions. The statute of limitations on the Portfolio's, tax returns remains open for the tax years 2007-2011. Management does not believe there are any uncertain tax positions that require recognition of a tax liability.

(h) Allocation Methods: The Fund accounts separately for the assets, liabilities and operations of each Portfolio. Expenses directly attributable to each Portfolio are charged to that 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 each Portfolio are allocated among the Portfolio's classes based on relative net assets, with the exception of distribution fees and transfer agency fees.

(i) Estimates: These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require using estimates and assumptions that affect the reported amounts therein. Actual results may differ from those estimates. These unaudited interim financial statements reflect all adjustments which are, in the opinion of management, necessary to a present a fair statement of results for the interim period. All such adjustments are of a normal recurring nature.

NOTE 3 — Investment Advisory Fees and Other Transactions with Affiliates:

(a) Investment Advisory and Administration Fees: Fees incurred by the Portfolio, pursuant to the provisions of the Fund's Investment Advisory Agreement and Administration Agreement with Fred Alger Management, Inc. ("Alger Management" or "Manager"), are payable monthly and computed based on the average daily net assets of the Portfolio at the following annual rate:

	Advisory Fee	Administration Fee
Alger Capital Appreciation Portfolio	.810%	.0275%

(b) Distribution Fees: Class S shares—The Fund has adopted a Distribution Plan pursuant to which Class S shares of each Portfolio pay Fred Alger & Company, Incorporated, the Fund's distributor (the "Distributor" or "Alger Inc."), a fee at the annual rate of .25% of the respective average daily net assets of the Class S shares of the designated 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 Alger Inc.

(c) Brokerage Commissions: During the six months ended June 30, 2012, the Portfolio paid the Alger Inc. $186,300, in connection with securities transactions.

(d) Shareholder Administrative Fees: The Fund has entered into a shareholder administrative services agreement with Alger Management to compensate Alger Management for its liaison and administrative oversight of Boston Financial Data Services, Inc., the transfer agent, and other related services. The Portfolio compensates Alger Management at the annual rate of 0.01% of the average daily net assets for these services. For the six months

ended June 30, 2012, the Portfolio incurred fees of $17,332, for these services, which are included in transfer agent fees and expenses in the Statements of Operations.

(e) Trustee Fees: The Portfolio pays each trustee who is not affiliated with Alger Management or its affiliates $750 for each meeting attended, to a maximum of $3,000 per annum, plus travel expenses incurred for attending the meeting. The chairman of the Board of Trustees receives an additional annual fee of $15,000 which is paid, pro rata, by all funds managed by Alger Management. Additionally, each member of the audit committee receives an additional $75 for each audit committee meeting attended, to a maximum of $300 per annum.

(f) Interfund Loans: The Portfolio, along with other funds advised by Alger Management, may borrow money from and lend money to each other for temporary or emergency purposes. To the extent permitted under its investment restrictions, the Portfolio may lend uninvested cash in an amount up to 15% of its net assets to other Portfolios. If the Portfolio has borrowed from other Portfolios and has aggregate borrowings from all sources that exceed 10% of the Portfolio's total assets, the Portfolio will secure all of its loans from other Portfolios. The interest rate charged on interfund loans is equal to the average of the overnight time deposit rate and bank loan rate available to the Portfolios. There were no interfund loans outstanding during the six months ended June 30, 2012.

(g) Other Transactions With Affiliates: Certain officers of the Fund are directors and officers of Alger Management and the Distributor.

NOTE 4 — Securities Transactions:

Purchases and sales of securities, other than U.S. Government and short-term securities, for the six months ended June 30, 2012, were as follows:

	PURCHASES	SALES
Alger Capital Appreciation Portfolio	$267,496,170	$260,619,167

NOTE 5 — Borrowing:

The Portfolio may borrow from its custodian on an uncommitted basis. The Portfolio pays the custodian a market rate of interest, generally based upon the London Inter-Bank Offered Rate. The Portfolio may also borrow from other portfolios advised by Alger Management, as discussed in Note 3 (f). For the six months ended June 30, 2012, the Portfolio had no borrowings.

NOTE 6 — Share Capital:

The Fund has an unlimited number of authorized shares of beneficial interest of $.001 par value for each share class. During the six months ended June 30, 2012 and the year ended December 31, 2011, transactions of shares of beneficial interest were as follows:

	FOR THE SIX MONTHS ENDED JUNE 30, 2012		FOR THE YEAR ENDED DECEMBER 31, 2011	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Capital Appreciation Portfolio				
Class I-2:				
Shares sold	690,622	$ 39,622,466	1,642,240	$ 86,804,964
Dividends reinvested	12,072	704,284	5,448	309,449
Shares redeemed	(626,222)	(36,028,329)	(1,393,816)	(73,867,921)
Net increase	**76,472**	**$ 4,298,421**	**253,872**	**$ 13,246,492**
Class S:				
Shares sold	40,256	$ 2,242,841	54,914	$ 2,951,941
Shares redeemed	(39,027)	(2,184,248)	(67,584)	(3,530,171)
Net increase (decrease)	**1,229**	**$ 58,593**	**(12,670)**	**$ (578,230)**

NOTE 7 — Income Tax Information:

At December 31, 2011, 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 Dates	Alger Capital Appreciation Portfolio
2016	$ 4,510,294
2017	21,764,876
Total	26,275,170

Net capital losses incurred after October 31 and within the taxable year are deemed to arise on the first business day of the Portfolio's next taxable year.

Under the recently enacted Regulated Investment Company Modernization Act of 2010, capital losses incurred by the Portfolio on or after January 1, 2011 will not be subject to expiration. In addition, losses incurred on or after January 1, 2011 must be utilized prior to the utilization of capital loss carryforwards above.

The difference between book-basis and tax-basis unrealized appreciation (depreciation) is determined annually and is attributable primarily to the tax deferral of losses on wash sales, the tax treatment of premium/discount on debt securities, the tax treatment of partnership investments, the realization of unrealized appreciation of Passive Foreign Investments Companies, and return of capital from Real Estate Investment Trust investments.

NOTE 8 — Fair Value Measurements:

The major categories of securities and their respective fair value inputs are detailed in each Portfolio's Schedule of Investments. The following is a summary of the inputs used as of June 30, 2012 in valuing the Portfolio's investments carried at fair value on a recurring basis. Based upon the nature, characteristics, and risks associated with its investments, the Portfolio has determined that presenting them by security type and sector is appropriate.

Alger Capital Appreciation Portfolio	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
COMMON STOCKS				
Consumer Discretionary	$ 57,143,560	$ 57,143,560	—	—
Consumer Staples	29,777,225	29,777,225	—	—
Energy	19,736,679	19,736,679	—	—
Financials	27,203,634	27,203,634	—	—
Health Care	46,649,926	45,757,382	892,544	—
Industrials	49,615,555	49,615,555	—	—
Information Technology	86,082,573	86,082,573	—	—
Materials	11,083,438	11,083,438	—	—
Telecommunication Services	7,763,191	7,763,191	—	—
TOTAL COMMON STOCKS	**$ 335,055,781**	**$ 334,163,237**	**$ 892,544**	**—**
MASTER LIMITED PARTNERSHIP				
Financials	$ 1,268,406	$ 1,268,406	—	—
TOTAL INVESTMENTS IN SECURITIES	**$ 336,324,187**	**$ 335,431,643**	**$ 892,544**	**—**

Alger Capital Appreciation Portfolio	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL3) Convertible Preferred Stock
Opening balance at January 1, 2012	$ 903,385
Transfers into Level 3	—
Transfers out of Level 3[(i)]	(696,897)
Total gains or losses	
Included in net realized gain (loss) on investments	—
Included in net unrealized gain (loss) on investments	(206,488)
Purchases, issuances, sales, and settlements	
Purchases	—
Issuances	—
Sales	—
Settlements	—
Closing balance at June 30, 2012	—
The amount of total gains or losses for the period included in net realized and unrealized gain (loss) attributable to change in unrealized appreciation (depreciation) relating to investments still held at June 30, 2012	**$ —**

(i) Securities transferred out of Level 3 upon closing of IPO and commencement of trading.

For the six months ended June 30, 2012, there were no significant transfers between Level 1 and Level 2.

NOTE 9 — Derivatives:

Financial Accounting Standards Board Accounting Standards Codification 815 – Derivatives and Hedging ("ASC 815") requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

Forward currency contracts—In connection with portfolio purchases and sales of securities denominated in foreign currencies, the Portfolio may enter into forward currency contracts. Additionally, the Portfolio may enter into such contracts to economically hedge certain other foreign currency denominated investments. These contracts are valued at the current cost of covering or offsetting such contracts, and the related realized and unrealized foreign exchange gains and losses are included in the statement of operations. In the event that counterparties fail to settle these currency contracts or the related foreign security trades, the Portfolio could be exposed to foreign currency fluctuations.

Options—The Portfolio seeks to capture the majority of the returns associated with equity market investments. To meet this investment goal, the Portfolio invests in a broadly diversified portfolio of common stocks, while also buying and selling call and put options on equities and equity indices. The Portfolio purchases call options to increase its exposure to stock market risk and also provide diversification of risk. The Portfolio purchases put options in order to protect from significant market declines that may occur over a short period of time. The Portfolio will write covered call and cash secured put options to generate cash flows while reducing the volatility of the portfolio. The cash flows may be an important source of the Portfolio's return, although written call options may reduce the Portfolio's ability to profit from increases in the value of the underlying security or equity portfolio. The value of a call option generally increases as the price of the underlying stock increases and decreases as the stock decreases in price. Conversely, the value of a put option generally increases as the price of the underlying stock decreases and decreases as the stock increases in price. The combination of the diversified stock portfolio and the purchase and sale of options is intended to provide the Portfolio with the majority of the returns associated with equity market investments but with reduced volatility and returns that are augmented with the cash flows from the sale of options. During the year ended December 31, 2011, written equity and index put options were used in accordance with this objective.

During the six months ended June 30, 2012, the Portfolio had no derivative instruments.

NOTE 10 — Litigation:

On August 31, 2005, the West Virginia Securities Commissioner (the "WVSC"), in an ex parte Summary Order to Cease and Desist and Notice of Right to Hearing, concluded that the Manager and the Distributor had violated the West Virginia Uniform Securities Act (the "WVUSA"), and ordered the Manager and the Distributor to cease and desist from further violations of the WVUSA by engaging in the market-timing-related conduct described in the order. The ex parte order provided notice of their right to a hearing with respect to the violations of law asserted by the WVSC. Other firms unaffiliated with the Manager were served with similar orders. The Manager and the Distributor intend to request a hearing for the purpose of seeking to vacate or modify the order.

NOTE 11 — Recent Accounting Pronouncements:

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11"), which provides guidance regarding balance sheet offsetting disclosures. The amendments in ASU 2011-11 require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effects of those arrangements on its financial position. Entities are required to disclose gross information and net information about both instruments and transactions eligible for offset in the statement of assets and liabilities and transactions subject to an agreement similar to a master netting arrangement. The objective of ASU 2011-11 is to facilitate comparison between those entities that prepare their financial statements on the basis of GAAP and those entities that prepare their financial statements on the basis of IFRS. The new guidance is effective for annual reporting periods beginning on or after January 1, 2013. The Fund does not believe that this will have a material impact on the financial statements.

NOTE 12 — Subsequent Event:

Management of the Portfolio has evaluated events that have occurred subsequent to June 30, 2012. No such events have been identified which require recognition and disclosure.

Shareholder Expense Example

As a shareholder of a 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 a 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, 2012 and ending June 30, 2012.

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 a 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 or deduction of insurance charges against assets or annuities. 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, 2012	Ending Account Value June 30, 2012	Expenses Paid During the Six Months Ended June 30, 2012(a)	Annualized Expense Ratio
Alger Capital Appreciation Portfolio					
Class I-2	Actual	$ 1,000.00	$ 1,112.20	$ 5.05	0.96%
	Hypothetical(b)	1,000.00	1,020.08	4.83	0.96
Class S	Actual	1,000.00	1,110.21	6.79	1.29
	Hypothetical(b)	1,000.00	1,018.43	6.50	1.29

(a) Expenses are equal to the annualized expense ratio of the respective share class, multiplied by the average account value over the period, multiplied by 182/366 (to reflect the one-half year period).

(b) 5% annual return before expenses.

Privacy Policy

FACTS	WHAT DOES ALGER DO WITH YOUR PERSONAL INFORMATION?
Why?	Financial companies choose how they share your personal information, which, under Federal law, means personally identifiable information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.
What?	The types of personal information we collect and share depend on the product or service you have with us. This information can include: • Social Security number • account balances, transaction history and credit information
How?	All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons Alger chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does Alger share?	Can you limit this sharing?
For our everyday business purposes — such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	**Yes**	**No**
For our marketing purposes — with service providers we use to offer our products and services to you	**Yes**	**No**
For joint marketing with other financial companies	**No**	**We don't share**
For our affiliates' everyday business purposes—information about your transactions and experiences	**Yes**	**No**
For our affiliates' everyday business purposes—information about your creditworthiness	**No**	**We don't share**
For nonaffiliates to market to you — for all credit card accounts	**No**	**We don't share**
For nonaffiliates to market to you — for accounts and services endorsed by another organization	**No**	**We don't share**
For nonaffiliates to market to you — for accounts other than credit card accounts and Sponsored Accounts, such as insurance, investments, deposit and lending	**No**	**We don't share**

What we do

How does Alger protect my personal information?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings. For more information visit alger.com.
How does Alger collect my personal information?	We collect your personal information, for example, when you: • open an account or perform transactions • seek advice about your investments We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.
Why can't I limit all sharing?	Federal law gives you the right to limit some but not all sharing related to: • sharing for affiliates' everyday business purposes — information about your creditworthiness • affiliates from using your information to market to you • sharing for nonaffiliates to market to you State laws and individual companies may give you additional rights to limit sharing.

Definitions	
Affiliates	Companies related by common ownership or control. They can be financial and nonfinancial companies. • Our affiliates include Fred Alger Management, Inc. and Fred Alger & Company, Incorporated as well as the following funds: The Alger Funds, The Alger Funds II, The Alger Institutional Funds, The Alger Portfolios, and Alger China-U.S. Growth Fund.
Nonaffiliates	Companies not related by common ownership or control. They can be financial and nonfinancial companies
Joint marketing	A formal agreement between nonaffiliated financial companies that together market financial products or services to you.

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

Fund Holdings

The Portfolio's most recent month end portfolio holdings are available approximately sixty days after month end on the Fund's website at www.alger.com. The Portfolio also 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 SEC's website at www.sec.gov or 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 PORTFOLIOS

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Investment Advisor

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Distributor

Fred Alger & Company, Incorporated
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New York, NY 10010

Transfer Agent and Dividend Disbursing Agent

Boston Financial Data Services, Inc.
P.O. Box 8480
Boston, MA 02266

This report is submitted for the general information of the shareholders of The Alger Portfolios. It is not authorized for distribution to prospective investors unless accompanied by an effective Prospectus for the Trust, which contains information concerning the Trust's investment policies, fees and expenses as well as other pertinent information.

ALGER

Inspired by Change, Driven by Growth.

The Dreyfus Socially Responsible Growth Fund, Inc.

SEMIANNUAL REPORT June 30, 2012

BNY MELLON

Dreyfus

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

The Fund

A LETTER FROM THE CHAIRMAN AND CEO

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, 2012, through June 30, 2012. For information about how the fund performed during the reporting period, as well as general market perspectives, we provide a Discussion of Fund Performance on the pages that follow.

Economic optimism helped drive stock prices higher in early 2012 when investors responded positively to improving U.S. employment trends and measures by European policymakers to address the region's sovereign debt crisis. However, political developments later raised doubts about some of Europe's proposed solutions, and U.S. economic data weakened in the spring. Consequently, U.S. stocks gave back their previous gains, and most major market indices ended the first half of the year close to where they began.

Despite the recent downturn in market sentiment, we believe the U.S. and global economies are likely to remain on mildly upward trajectories. In our judgment, current sluggishness is at least partly due to the lagging effects of tighter monetary policies in some areas of the world, and we expect stronger growth when a shift to more accommodative policies begins to have an impact on global economic activity. In addition, the adjustment among U.S. exporters to weaker European demand and slower economic growth in certain emerging markets should be largely completed later this year, setting the stage for better business conditions in 2013.

As always, we encourage you to discuss our observations with your financial advisor.

Thank you for your continued confidence and support.

Sincerely,

Jonathan R. Baum
Chairman and Chief Executive Officer
The Dreyfus Corporation
July 16, 2012

DISCUSSION OF FUND PERFORMANCE

For the period of January 1, 2012, through June 30, 2012, as provided by Jocelin Reed, Warren Chiang, C.Wesley Boggs and Ronald Gala, Portfolio Managers

Market and Fund Performance Overview

For the six-month period ended June 30, 2012, The Dreyfus Socially Responsible Growth Fund's Initial shares produced a total return of 8.27%, and the fund's Service shares returned 8.15%.[1] In comparison, the fund's benchmark, the Standard & Poor's 500 Composite Stock Price Index ("S&P 500 Index"), produced a total return of 9.48% for the same period.[2]

Mixed economic data fueled heightened market volatility as gains over the first quarter of 2012 were partly offset by declines during the second quarter. The fund produced lower returns than its benchmark, chiefly due to shortfalls in the consumer discretionary and information technology sectors.

The Fund's Investment Approach

The fund seeks capital growth, with current income as a secondary objective. To pursue these goals, the fund invests at least 80% of its assets in the common stocks of companies that, in our opinion, meet traditional investment standards while simultaneously conducting their businesses in a manner that contributes to the enhancement of the quality of life in America. In selecting stocks, we use quantitative research to identify and rank stocks within an industry or sector. Next, using fundamental analysis, we designate the most attractive of the higher ranked securities as potential purchase candidates. We then evaluate whether each company meets the fund's socially responsible investment criteria in order to determine whether the company is eligible for purchase or retention by the fund. With respect to those eligible securities, we then select investments that we consider to be the most attractive based on financial considerations.

The fund normally focuses on large-cap growth stocks; however, the fund also may invest in value-oriented stocks, midcap stocks and small-cap stocks.

Macroeconomic Developments Fueled Market Volatility

The first quarter of 2012 began with a strong rally among U.S. stocks amid employment gains and other encouraging domestic economic news. In addition, a quantitative easing program in Europe appeared to forestall a more severe banking crisis in the region, and monetary policy-makers in China seemed to have engineered a "soft landing" and lower inflation in a major engine of global growth. Consequently, investors grew more tolerant of risks, and they turned their focus to companies expected to benefit from better business conditions worldwide.

However, these positive influences were called into question in the second quarter, when the U.S. labor market's rebound slowed as the public sector shed jobs and employment gains in the private sector proved more anemic than expected. Meanwhile, proposed austerity programs to relieve fiscal pressures in Europe encountered political resistance. These headwinds caused the S&P 500 Index to fall over the second quarter of the year, partly offsetting earlier gains.

Security Selection Strategy Produced Mixed Results

In this challenging market environment, the fund suffered disappointments in the consumer discretionary sector. Although the sector fared relatively well for the benchmark, the fund's security selections dampened relative performance. Electronics retailer Best Buy reported weak quarterly earnings due to slower sales of entertainment products and sluggish demand in China. Office supplies seller Staples was hurt by falling paper sales and management turnover. Apparel chain Kohl's encountered inventory management issues and greater competitive pressures.

In the information technology sector, underweighted exposure to electronics innovator Apple dampened relative results, as did overweighted positions in hardware manufacturers Dell and Hewlett-Packard, which saw personal computer sales eroded by mobile devices. In the industrials sector, heavy equipment maker Caterpillar was hurt by the global economic slowdown, especially in the emerging markets. Finally, underweighted exposure to the financials sector prevented the fund from participating more fully in a rebound among large, diversified financial institutions.

The fund achieved better results in the consumer staples sector, where organic grocer Whole Foods Market benefited from more robust spending by a relatively affluent customer base. In the health care sector, the fund scored success through an emphasis on biotechnology firms, such as Biogen Idec and Gilead Sciences, which was sold during the reporting period, and relatively light positions in traditional pharmaceutical developers.

Social Responsibility: Serving a Diverse Population

We take seriously our mandate to invest in socially responsible companies. One example is cosmetics maker Estee Lauder Companies, which has a history of diversity in its workforce and promotes a line of products specifically formulated for women of color. Moreover, Estee Lauder is a leader in the development of organic and healthy beauty products. These ventures are not just good social policy; they are sound business decisions as the company makes inroads into the emerging markets and a growing population of middle class consumers.

A Growth-Oriented Investment Posture

Our bottom-up security selection process has found a number of growth-oriented opportunities but fewer of the value-oriented variety, particularly among financial companies. In addition, we have favored companies with a presence in emerging markets. In our judgment, these strategies position the fund for potential market gains while managing risks.

July 16, 2012

Equity funds are subject generally to market, market sector, market liquidity, issuer and investment style risks, among other factors, to varying degrees, all of which are more fully described in the fund's prospectus.

The fund's socially responsible investment criteria may limit the number of investment opportunities available to the fund, and as a result, at times, the fund may produce more modest gains than funds that are not subject to such special investment considerations.

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.

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. Investors cannot invest directly in any index.*

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), redemption fees and expenses associated with variable annuity or insurance contracts, 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, 2012 to June 30, 2012. 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, 2012

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.35	$ 5.74
Ending value (after expenses)	$1,082.70	$1,081.50

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, 2012

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.22	$ 5.57
Ending value (after expenses)	$1,020.69	$1,019.34

† *Expenses are equal to the fund's annualized expense ratio of .84% for Initial Shares and 1.11% for Service Shares, multiplied by the average account value over the period, multiplied by 182/366 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS

June 30, 2012 (Unaudited)

Common Stocks—99.5%	Shares		Value ($)
Automobiles & Components—1.0%			
Thor Industries	78,400		**2,148,944**
Banks—6.3%			
Comerica	132,700		4,075,217
First Horizon National	170,520		1,474,998
KeyCorp	523,300		4,050,342
People's United Financial	85,300		990,333
PNC Financial Services Group	26,350		1,610,249
Regions Financial	260,700		1,759,725
			13,960,864
Capital Goods—8.5%			
3M	33,500		3,001,600
Caterpillar	19,900		1,689,709
Cummins	28,200		2,732,862
Donaldson	52,050		1,736,909
Fluor	21,600		1,065,744
General Electric	151,300		3,153,092
Parker Hannifin	27,700		2,129,576
United Technologies	43,875		3,313,879
			18,823,371
Commercial & Professional Services—.4%			
Brink's	39,850		**923,723**
Consumer Services—1.6%			
Marriott International, Cl. A	87,400		**3,426,080**
Diversified Financials—5.2%			
American Express	57,800		3,364,538
Discover Financial Services	90,300		3,122,574
NASDAQ OMX Group	73,500		1,666,245
Northern Trust	37,900		1,744,158
Waddell & Reed Financial, Cl. A	49,950		1,512,486
			11,410,001
Energy—8.9%			
Apache	31,700		2,786,113
Denbury Resources	197,500	a	2,984,225
Devon Energy	47,450		2,751,626
EnCana	89,300		1,860,119

Common Stocks (continued)	Shares		Value ($)
Energy (continued)			
Bristow Group	23,700		963,879
Hess	26,700		1,160,115
Nexen	140,425		2,371,778
Noble Energy	27,900		2,366,478
Pioneer Natural Resources	18,400		1,623,064
Venoco	76,823	a,b	768,998
			19,636,395
Food & Staples Retailing—4.0%			
Costco Wholesale	46,900		4,455,500
Kroger	49,100		1,138,629
Whole Foods Market	34,550		3,293,306
			8,887,435
Food, Beverage & Tobacco—4.2%			
Bunge	18,800		1,179,512
Campbell Soup	101,200	b	3,378,056
Coca-Cola Enterprises	48,000		1,345,920
ConAgra Foods	62,600		1,623,218
Hormel Foods	54,300		1,651,806
			9,178,512
Health Care Equipment & Services—3.2%			
Becton Dickinson & Co.	14,475		1,082,006
DaVita	40,600	a	3,987,326
Humana	24,900		1,928,256
			6,997,588
Household & Personal Products—2.9%			
Clorox	15,500		1,123,130
Estee Lauder, Cl. A	69,500		3,761,340
Procter & Gamble	23,625		1,447,031
			6,331,501
Insurance—1.2%			
Aflac	62,000		**2,640,580**
Materials—2.5%			
Ball	58,200		2,389,110
Domtar	28,000		2,147,880

Common Stocks (continued)	Shares		Value ($)
Materials (continued)			
Rockwood Holdings	23,100		1,024,485
			5,561,475
Media—1.2%			
Discovery Communications, Cl. A	50,700	a	**2,737,800**
Pharmaceuticals & Biotechnology—11.0%			
Agilent Technologies	61,000		2,393,640
Amgen	16,675		1,217,942
AstraZeneca, ADR	51,650		2,311,337
Biogen Idec	20,700	a	2,988,666
Bristol-Myers Squibb	152,200		5,471,590
Celgene	33,400	a	2,142,944
Life Technologies	78,300	a	3,522,717
Novartis, ADR	41,800		2,336,620
Waters	23,400	a	1,859,598
			24,245,054
Retailing—5.4%			
Best Buy	132,200		2,770,912
Kohl's	67,600		3,075,124
Nordstrom	48,900		2,429,841
O'Reilly Automotive	19,000	a	1,591,630
Staples	146,800		1,915,740
			11,783,247
Semiconductors & Equipment—2.5%			
Advanced Micro Devices	353,700	a	2,026,701
Applied Materials	311,900		3,574,374
			5,601,075
Software & Services—11.8%			
Accenture, Cl. A	19,600		1,177,764
BMC Software	25,500	a	1,088,340
CA	72,550		1,965,379
International Business Machines	29,575		5,784,279
Intuit	29,500		1,750,825
Microsoft	156,100		4,775,099
Oracle	120,075		3,566,228

Common Stocks (continued)	Shares		Value ($)
Software & Services (continued)			
Symantec	137,750	a	2,012,527
VistaPrint	75,800	a,b	2,448,340
Western Union	87,625		1,475,605
			26,044,386
Technology Hardware & Equipment—10.1%			
Apple	11,450	a	6,686,800
Avnet	43,575	a	1,344,724
Cisco Systems	204,375		3,509,119
Dell	246,600	a	3,087,432
EMC	114,525	a	2,935,276
Hewlett-Packard	101,600		2,043,176
Motorola Solutions	57,500		2,766,325
			22,372,852
Telecommunication Services—3.0%			
Verizon Communications	150,500		**6,688,220**
Transportation—1.1%			
United Parcel Service, Cl. B	29,400		**2,315,544**
Utilities—3.5%			
Consolidated Edison	47,700		2,966,463
Pinnacle West Capital	47,100		2,436,954
Xcel Energy	82,700		2,349,507
			7,752,924
Total Common Stocks (cost $198,448,698)			**219,467,571**

Other Investment—.6%			
Registered Investment Company;			
Dreyfus Institutional Preferred Plus Money Market Fund (cost $1,287,114)	1,287,114	c	**1,287,114**

Investment of Cash Collateral for Securities Loaned—1.5%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Fund (cost $3,272,220)	3,272,220 [c]	**3,272,220**
Total Investments (cost $203,008,032)	**101.6%**	**224,026,905**
Liabilities, Less Cash and Receivables	**(1.6%)**	**(3,575,123)**
Net Assets	**100.0%**	**220,451,782**

ADR—American Depository Receipts

[a] *Non-income producing security.*

[b] *Security, or portion thereof, on loan. At June 30, 2012, the value of the fund's securities on loan was $3,297,793 and the value of the collateral held by the fund was $3,272,220.*

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

Portfolio Summary (Unaudited)†

	Value (%)		Value (%)
Software & Services	11.8	Telecommunication Services	3.0
Pharmaceuticals & Biotechnology	11.0	Household & Personal Products	2.9
Technology Hardware & Equipment	10.1	Semiconductors & Equipment	2.5
Capital Goods	8.5	Materials	2.5
Energy	8.9	Money Market Investments	2.1
Banks	6.3	Consumer Services	1.6
Retailing	5.4	Transportation	1.1
Diversified Financials	5.2	Insurance	1.2
Food, Beverage & Tobacco	4.2	Media	1.2
Food & Staples Retailing	4.0	Automobiles & Components	1.0
Utilities	3.5	Commercial & Professional Services	.4
Health Care Equipment & Services	3.2		**101.6**

† *Based on net assets.*

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2012 (Unaudited)

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments (including securities on loan, valued at $3,297,793)—Note 1(b):		
Unaffiliated issuers	198,448,698	219,467,571
Affiliated issuers	4,559,334	4,559,334
Cash		24,047
Dividends and securities lending income receivable		194,044
Prepaid expenses		6,064
		224,251,060
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(c)		147,363
Liability for securities on loan—Note 1(b)		3,272,220
Payable for shares of Common Stock redeemed		302,538
Interest payable—Note 2		142
Accrued expenses		77,015
		3,799,278
Net Assets ($)		**220,451,782**
Composition of Net Assets ($):		
Paid-in capital		201,985,477
Accumulated undistributed investment income—net		1,093,552
Accumulated net realized gain (loss) on investments		(3,646,120)
Accumulated net unrealized appreciation (depreciation) on investments		21,018,873
Net Assets ($)		**220,451,782**

Net Asset Value Per Share

	Initial Shares	Service Shares
Net Assets ($)	214,041,635	6,410,147
Shares Outstanding	6,658,856	200,595
Net Asset Value Per Share ($)	**32.14**	**31.96**

See notes to financial statements.

STATEMENT OF OPERATIONS

Six Months Ended June 30, 2012 (Unaudited)

Investment Income ($):	
Income:	
Cash dividends (net of $15,810 foreign taxes withheld at source):	
Unaffiliated issuers	1,995,371
Affiliated issuers	395
Income from securities lending–Note 1(b)	67,993
Total Income	**2,063,759**
Expenses:	
Management fee–Note 3(a)	854,196
Professional fees	47,597
Prospectus and shareholders' reports	29,512
Custodian fees–Note 3(c)	8,997
Distribution fees–Note 3(b)	8,236
Shareholder servicing costs–Note 3(c)	5,437
Directors' fees and expenses–Note 3(d)	4,075
Loan commitment fees–Note 2	795
Interest expense–Note 2	142
Miscellaneous	7,040
Total Expenses	**966,027**
Less–reduction in fees due to earnings credits–Note 3(c)	(4)
Net Expenses	**966,023**
Investment Income–Net	**1,097,736**
Realized and Unrealized Gain (Loss) on Investments–Note 4 ($):	
Net realized gain (loss) on investments	7,276,602
Net unrealized appreciation (depreciation) on investments	9,306,353
Net Realized and Unrealized Gain (Loss) on Investments	**16,582,955**
Net Increase in Net Assets Resulting from Operations	**17,680,691**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended June 30, 2012 (Unaudited)	Year Ended December 31, 2011
Operations ($):		
Investment income—net	1,097,736	1,809,131
Net realized gain (loss) on investments	7,276,602	25,953,466
Net unrealized appreciation (depreciation) on investments	9,306,353	(25,448,830)
Net Increase (Decrease) in Net Assets Resulting from Operations	**17,680,691**	**2,313,767**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(1,775,288)	(1,991,777)
Service Shares	(37,298)	(43,526)
Total Dividends	**(1,812,586)**	**(2,035,303)**
Capital Stock Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	5,920,013	11,511,549
Service Shares	640,850	769,413
Dividends reinvested:		
Initial Shares	1,775,288	1,991,777
Service Shares	37,298	43,526
Cost of shares redeemed:		
Initial Shares	(17,078,050)	(33,671,498)
Service Shares	(892,243)	(1,130,073)
Increase (Decrease) in Net Assets from Capital Stock Transactions	**(9,596,844)**	**(20,485,306)**
Total Increase (Decrease) in Net Assets	**6,271,261**	**(20,206,842)**
Net Assets ($):		
Beginning of Period	214,180,521	234,387,363
End of Period	**220,451,782**	**214,180,521**
Undistributed investment income—net	1,093,552	1,808,402

	Six Months Ended June 30, 2012 (Unaudited)	Year Ended December 31, 2011
Capital Share Transactions:		
Initial Shares		
Shares sold	180,154	379,277
Shares issued for dividends reinvested	51,894	64,396
Shares redeemed	(528,414)	(1,109,212)
Net Increase (Decrease) in Shares Outstanding	**(296,366)**	**(665,539)**
Service Shares		
Shares sold	19,932	25,572
Shares issued for dividends reinvested	1,096	1,415
Shares redeemed	(28,055)	(37,964)
Net Increase (Decrease) in Shares Outstanding	**(7,027)**	**(10,977)**

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. The fund's total returns do not reflect expenses associated with variable annuity or insurance contracts. These figures have been derived from the fund's financial statements.

Initial Shares	Six Months Ended June 30, 2012 (Unaudited)	Year Ended December 31, 2011	2010	2009	2008	2007
Per Share Data ($):						
Net asset value, beginning of period	29.91	29.90	26.26	19.86	30.50	28.45
Investment Operations:						
Investment income—net[a]	.16	.24	.25	.21	.19	.17
Net realized and unrealized gain (loss) on investments	2.33	.04	3.62	6.40	(10.64)	2.04
Total from Investment Operations	2.49	.28	3.87	6.61	(10.45)	2.21
Distributions:						
Dividends from investment income—net	(.26)	(.27)	(.23)	(.21)	(.19)	(.16)
Net asset value, end of period	32.14	29.91	29.90	26.26	19.86	30.50
Total Return (%)	8.27[b]	.90	14.82	33.75	(34.42)	7.78
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	.84[c]	.85	.89	.89	.85	.82
Ratio of net expenses to average net assets	.84[c]	.85	.89	.89	.85	.82
Ratio of net investment income to average net assets	.97[c]	.80	.93	.97	.72	.58
Portfolio Turnover Rate	25.79[b]	67.88	32.75	34.00	31.74	22.71
Net Assets, end of period ($ x 1,000)	214,042	208,013	227,893	222,600	184,813	331,313

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

Service Shares	Six Months Ended June 30, 2012 (Unaudited)	Year Ended December 31, 2011	2010	2009	2008	2007
Per Share Data ($):						
Net asset value, beginning of period	29.70	29.71	26.10	19.71	30.25	28.21
Investment Operations:						
Investment income—net[a]	.11	.17	.18	.16	.12	.10
Net realized and unrealized gain (loss) on investments	2.33	.02	3.60	6.37	(10.55)	2.02
Total from Investment Operations	2.44	.19	3.78	6.53	(10.43)	2.12
Distributions:						
Dividends from investment income—net	(.18)	(.20)	(.17)	(.14)	(.11)	(.08)
Net asset value, end of period	31.96	29.70	29.71	26.10	19.71	30.25
Total Return (%)	8.15[b]	.65	14.54	33.44	(34.58)	7.49
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	1.11[c]	1.10	1.14	1.14	1.10	1.07
Ratio of net expenses to average net assets	1.11[c]	1.10	1.14	1.14	1.10	1.07
Ratio of net investment income to average net assets	.71[c]	.55	.68	.72	.47	.33
Portfolio Turnover Rate	25.79[b]	67.88	32.75	34.00	31.74	22.71
Net Assets, end of period ($ x 1,000)	6,410	6,167	6,494	6,070	5,008	8,924

[a] *Based on average shares outstanding at each month end.*
[b] *Not annualized.*
[c] *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 seeks to provide capital growth. 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"), a wholly-owned subsidiary of The Bank of New York Mellon Corporation ("BNY Mellon"), serves as the fund's investment adviser.

MBSC Securities 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. The fund currently offers two 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 distribution plan, shareholder services plan and the expenses borne by each class, the allocation of certain transfer agency costs 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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification is the exclusive reference of authoritative U.S. generally accepted accounting principles ("GAAP") recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal laws are also sources of authoritative GAAP for SEC registrants. The fund's financial statements are prepared in accordance with GAAP, 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: The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price). GAAP establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Additionally, GAAP provides guidance on determining whether the volume and activity in a market has decreased significantly and whether such a decrease in activity results in transactions that are not orderly. GAAP requires enhanced disclosures around valuation inputs and techniques used during annual and interim periods.

Various inputs are used in determining the value of the fund's investments relating to fair value measurements. These inputs are summarized in the three broad levels listed below:

Level 1—unadjusted quoted prices in active markets for identical investments.

Level 2—other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.).

Level 3—significant unobservable inputs (including the fund's own assumptions in determining the fair value of investments).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Changes in valuation techniques may result in transfers in or out of an assigned level within the disclosure hierarchy. Valuation techniques used to value the fund's investments are as follows:

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. Registered investment companies that are not traded on an exchange are valued at their net asset value. All of the preceding securities are categorized within Level 1 of the fair value hierarchy.

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 ADRs and financial futures. Utilizing these techniques may result in transfers between Level 1 and Level 2 of the fair value hierarchy.

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 fund's Board of Directors. Certain factors may be considered when fair valuing investments 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. These securities are either categorized as Level 2 or 3 depending on the relevant inputs used.

For restricted securities where observable inputs are limited, assumptions about market activity and risk are used and are categorized within Level 3 of the fair value hierarchy.

The following is a summary of the inputs used as of June 30, 2012 in valuing the fund's investments:

	Level 1– Unadjusted Quoted Prices	Level 2–Other Significant Observable Inputs	Level 3– Significant Unobservable Inputs	Total
Assets ($)				
Investments in Securities:				
Equity Securities– Domestic†	208,139,377	–	–	**208,139,377**
Equity Securities– Foreign†	11,328,194	–	–	**11,328,194**
Mutual Funds	4,559,334	–	–	**4,559,334**

† *See Statement of Investments for additional detailed categorizations.*

For the period ended June 30, 2012, there were no transfers of exchange traded securities between Level 1 and Level 2 of the fair value hierarchy.

(b) Securities transactions and investment income: Securities transactions are recorded on a trade date basis. Realized gains and losses 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.

Pursuant to a securities lending agreement with The Bank of New York Mellon, a subsidiary of BNY Mellon and an affiliate of Dreyfus, the fund may lend securities to qualified institutions. It is the fund's policy that, 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 is maintained at all times. At June 30, 2012, the value of the collateral was 99.2% of the market value of the securities on loan. The fund received additional collateral subsequent to period end which resulted in the market value of the collateral to be at least 100% of the market value of the securities on loan. Collateral is either in the form of cash, which can be invested in certain money market mutual funds managed by the Manager, U.S. Government and Agency securities or letters of credit. The fund is 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 bears 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. During the period ended June 30, 2012, The Bank of New York Mellon earned $29,140 from lending portfolio securities, pursuant to the securities lending agreement.

(c) Affiliated issuers: Other investment companies advised by Dreyfus are considered to be "affiliated" with the fund.

The fund may invest in shares of certain affiliated investment companies also advised or managed by Dreyfus. Investments in affiliated investment companies for the period ended June 30, 2012 were as follows:

Affiliated Investment Company	Value 12/31/2011 ($)	Purchases ($)	Sales ($)	Value 6/30/2012 ($)	Net Assets (%)
Dreyfus Institutional Preferred Plus Money Market Fund	1,532,244	9,167,347	9,412,477	1,287,114	.6
Dreyfus Institutional Cash Advantage Fund	8,730,754	49,677,072	55,135,606	3,272,220	1.5
Total	**10,262,998**	**58,844,419**	**64,548,083**	**4,559,334**	**2.1**

(d) Dividends to shareholders: Dividends are recorded on the ex-dividend date. Dividends from investment income-net and dividends from net realized capital gains, 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 gains can be offset by capital loss carryovers, it is the policy of the fund not to distribute such gains. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP.

(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.

As of and during the period ended June 30, 2012, the fund did not have any liabilities for any uncertain tax positions. The fund recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense in the Statement of Operations. During the period, the fund did not incur any interest or penalties.

Each of the tax years in the three-year period ended December 31, 2011 remains subject to examination by the Internal Revenue Service and state taxing authorities.

Under the Regulated Investment Company Modernization Act of 2010 (the "2010 Act"), the fund is permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 ("post-enactment losses") for an unlimited period. Furthermore, post-enactment capital loss carryovers retain their character as either short-term or long-term capital losses rather than short-term as they were under previous statute. The 2010 Act requires post-enactment losses to be utilized before the utilization of losses incurred in taxable years prior to the effective date of the 2010 Act ("pre-enactment losses"). As a result of this ordering rule, pre-enactment losses may be more likely to expire unused.

The fund has an unused capital loss carryover of $9,706,774 available for federal income tax purposes to be applied against future net realized capital gains, if any, realized subsequent to December 31, 2011. If not applied, the carryover expires in fiscal year 2017.

The tax character of distributions paid to shareholders during the fiscal year ended December 31, 2011was as follows: ordinary income $2,035,303. The tax character of current year distributions will be determined at the end of the current fiscal year.

NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in a $225 million unsecured credit facility led by Citibank, N.A. and a $300 million unsecured credit facility provided by The Bank of New York Mellon (each, a "Facility"), each to be utilized primarily for temporary or emergency purposes, including the financing of redemptions. In connection therewith, the fund has agreed to pay its pro rata portion of commitment fees for each Facility. Interest is charged to the fund based on rates determined pursuant to the terms of the respective Facility at the time of borrowing.

The average amount of borrowings outstanding under the Facilities during the period ended June 30, 2012, was approximately $24,200 with a related weighted average annualized interest rate of 1.18%.

NOTE 3—Management Fee and Other Transactions With Affiliates:

(a) Pursuant to a management agreement with the Manager, the management fee is computed at the annual rate of .75% 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 its 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 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, 2012, Service shares were charged $8,236 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 the value of the Initial shares average daily net assets for certain allocated expenses with respect to servicing and/or maintaining Initial shares shareholder accounts.

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 and cash management services for the fund. During the period ended June 30, 2012, the fund was charged $548 pursuant to the transfer agency agreement, which is included in Shareholder servicing costs in the Statement of Operations.

The fund compensates The Bank of New York Mellon under a custody agreement for providing custodial services for the fund. During the period ended June 30, 2012, the fund was charged $8,997 pursuant to the custody agreement.

The fund has arrangements with the transfer agent and the custodian whereby the fund may receive earnings credits when positive cash balances are maintained, which are used to offset transfer agency and custody fees. For financial reporting purposes, the fund includes net earnings credits as an expense offset in the Statement of Operations.

Prior to May 29, 2012, the fund compensated The Bank of New York Mellon under a cash management agreement for performing cash management services related to fund subscriptions and redemptions.

During the period ended June 30, 2012, the fund was charged $89 pursuant to the cash management agreement, which is included in Shareholder servicing costs in the Statement of Operations. These fees were partially offset by earnings credits of $4.

During the period ended June 30, 2012, the fund was charged $3,183 for services performed by the Chief Compliance Officer and his staff.

The components of "Due to The Dreyfus Corporation and affiliates" in the Statement of Assets and Liabilities consist of: management fees $132,279, Shareholder Services Plan fees $6,000, Plan fees $1,276, custodian fees $4,185, Chief Compliance Officer fees $3,183 and transfer agency per account fees $440.

(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, 2012, amounted to $58,411,528 and $68,165,791, respectively.

At June 30, 2012, accumulated net unrealized appreciation on investments was $21,018,873, consisting of $32,032,686 gross unrealized appreciation and $11,013,813 gross unrealized depreciation.

At June 30, 2012, 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).

NOTES

For More Information

The Dreyfus Socially Responsible Growth Fund, Inc.
200 Park Avenue
New York, NY 10166

Manager

The Dreyfus Corporation
200 Park Avenue
New York, NY 10166

Custodian

The Bank of New York Mellon
One Wall Street
New York, NY 10286

Transfer Agent & Dividend Disbursing Agent

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

Distributor

MBSC Securities Corporation
200 Park Avenue
New York, NY 10166

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

Mail The Dreyfus Family of Funds, 144 Glenn Curtiss Boulevard, Uniondale, NY 11556-0144
Attn: Investments Division

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 most recent 12-month period ended June 30 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-DREYFUS.

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Dreyfus Investment Portfolios, MidCap Stock Portfolio

SEMIANNUAL REPORT June 30, 2012

BNY MELLON

Dreyfus

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.

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Dreyfus Investment Portfolios,
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The Fund

A LETTER FROM THE CHAIRMAN AND CEO

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, 2012, through June 30, 2012. For information about how the fund performed during the reporting period, as well as general market perspectives, we provide a Discussion of Fund Performance on the pages that follow.

Economic optimism helped drive stock prices higher in early 2012 when investors responded positively to improving U.S. employment trends and measures by European policymakers to address the region's sovereign debt crisis. However, political developments later raised doubts about some of Europe's proposed solutions, and U.S. economic data weakened in the spring. Consequently, U.S. stocks gave back their previous gains, and most major market indices ended the first half of the year close to where they began.

Despite the recent downturn in market sentiment, we believe the U.S. and global economies are likely to remain on mildly upward trajectories. In our judgment, current sluggishness is at least partly due to the lagging effects of tighter monetary policies in some areas of the world, and we expect stronger growth when a shift to more accommodative policies begins to have an impact on global economic activity. In addition, the adjustment among U.S. exporters to weaker European demand and slower economic growth in certain emerging markets should be largely completed later this year, setting the stage for better business conditions in 2013.

As always, we encourage you to discuss our observations with your financial advisor.

Thank you for your continued confidence and support.

Sincerely,

Jonathan R. Baum
Chairman and Chief Executive Officer
The Dreyfus Corporation
July 16, 2012

DISCUSSION OF FUND PERFORMANCE

For the period of January 1, 2012, through June 30, 2012, as provided by Jocelin Reed, Warren Chiang, C. Wesley Boggs and Ronald Gala, Portfolio Managers

Fund and Market Performance Overview

For the six-month period ended June 30, 2012, Dreyfus Investment Portfolios, MidCap Stock Portfolio's Initial shares produced a total return of 8.53%, and its Service shares produced a total return of 8.36%.[1] In comparison, the fund's benchmark, the Standard & Poor's MidCap 400 Index (the "S&P 400 Index"), produced a total return of 7.90% for the same period.[2]

Positive macroeconomic trends buoyed investor confidence and drove stocks sharply higher during the first quarter of 2012. However, confidence weakened during the second quarter, causing stocks to give up some of their earlier gains. Mid-cap stocks mildly underperformed their larger-cap counterparts in this environment. The fund produced higher returns than its benchmark, largely due to positive stock selections in the energy, consumer staples and information technology sectors.

The Fund's Investment Approach

The fund seeks 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 S&P 400 Index. To pursue this goal, the fund normally invests at least 80% of its assets in stocks of midsize companies. The fund invests in growth and value stocks, which are chosen through a disciplined investment process that combines computer modeling techniques, fundamental analysis and risk management. Consistency of returns compared to the S&P 400 Index is a primary goal of the investment process.

Markets Reacted to Shifting Macroeconomic Developments

Early 2012 saw continued improvement in U.S. employment and manufacturing trends. In addition, hopes rose that measures implemented by monetary and fiscal policymakers in the European Union might prevent fiscal instability from spreading from Greece to other nations in a region struggling with heavy debt loads and compromised banking systems. Stocks rallied strongly in response to these positive developments, with the S&P 400 Index producing double-digit returns over the first three months of the year.

Investor sentiment waned in the spring when employment gains moderated in the United States. Global developments further undermined investor confidence. The first round of Greek elections cast doubt on the political viability of the European bailout plan, and several Spanish banks edged closer to failure due to mounting commercial real estate and mortgage losses. Economic growth in China slowed in response to inflation-fighting programs, threatening a major engine of global growth. Equity markets dipped sharply in April and May, but rebounded to a degree in June when a second round of Greek elections and new European economic initiatives eased investors' concerns.

Good Stock Selections Buoyed Fund Performance

The fund's disciplined quantitative stock selection process identified strong performers across several market sectors. In the energy sector, underweighted exposure to coal-related stocks worked in the fund's favor when commodity prices came under pressure. Attractive valuation metrics led us to invest in some of the energy sector's better performers, including oil and gas refiner HollyFrontier, which paid a special dividend to investors due to lower costs for raw materials.

In the consumer staples sector, a combination of strong valuation, quality and behavior metrics guided the fund's investment in alcoholic beverage producer Constellation Brands, Cl. A. The company's stock climbed sharply after it announced plans to complete its acquisition of Crown Imports, enabling it to maintain its position as U.S. distributor for several popular brands. Similarly, in the information technology sector, a balance of attractive factors prompted the fund's investment in enterprise information management services provider CA Technologies, which rose after announcing a dividend increase and a share repurchase plan designed to return excess capital to investors. Finally, in the consumer discretionary sector, our analysis of quality factors drove the fund's investment in pet supply retailer PetSmart, which reported better-than-expected earnings and raised its future guidance.

By contrast, a few holdings detracted significantly from the fund's relative performance over the first half of 2012. The fund mildly underperformed in the health care sector largely due to its lack of exposure to a small number of high-flying, speculative biotechnology firms that failed to meet our valuation criteria. In addition, global industrial machinery engineering firm Gardner Denver, which reduced earnings guidance in response to global macroeconomic developments detracted from fund performance.

Taking Advantage of Volatility-Driven Opportunities

Although heightened levels of market volatility have continued to unsettle many investors as of midyear, we have taken advantage of market downturns by buying attractively priced shares in companies that meet our investment criteria. By the same token, when markets rise, we have trimmed the fund's exposure to more richly valued holdings, redeploying the proceeds to stocks that better meet our investment criteria. Finally, in light of recent market trends, we have modestly reduced the fund's emphasis on valuation metrics relative to quality metrics as part of our continuing efforts to refine the fund's quantitative stock selection process.

July 16, 2012

Equity funds are subject generally to market, market sector, market liquidity, issuer and investment style risks, among other factors, to varying degrees, all of which are more fully described in the fund's prospectus.

Stocks of midcap companies often experience sharper price fluctuations than stocks of large-cap companies.

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.

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 MidCap 400 Index is a widely accepted, unmanaged total return index measuring the performance of the midsize-company segment of the U.S. market. Investors cannot invest directly in an index.*

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), redemption fees and expenses associated with variable annuity or insurance contracts, 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 Dreyfus Investment Portfolios, MidCap Stock Portfolio from January 1, 2012 to June 30, 2012. 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, 2012

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.36	$ 5.65
Ending value (after expenses)	$1,085.30	$1,083.60

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, 2012

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.22	$ 5.47
Ending value (after expenses)	$1,020.69	$1,019.44

† *Expenses are equal to the fund's annualized expense ratio of .84% for Initial shares and 1.09% for Service shares, multiplied by the average account value over the period, multiplied by 182/366 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS

June 30, 2012 (Unaudited)

Common Stocks—99.4%	Shares		Value ($)
Automobiles & Components—1.4%			
Thor Industries	69,100		1,894,031
WABCO Holdings	1,200	a	63,516
			1,957,547
Banks—3.3%			
Cathay General Bancorp	55,500		916,305
Comerica	12,800		393,088
Huntington Bancshares	37,800		241,920
KeyCorp	131,200		1,015,488
Webster Financial	83,000		1,797,780
Zions Bancorporation	16,900	b	328,198
			4,692,779
Capital Goods—10.1%			
Aecom Technology	59,100	a	972,195
AGCO	29,000	a	1,326,170
Alliant Techsystems	30,300		1,532,271
Chicago Bridge & Iron	19,100		725,036
Gardner Denver	32,200		1,703,702
Granite Construction	39,300		1,026,123
KBR	30,400		751,184
Kennametal	27,600		914,940
Lincoln Electric Holdings	50,800		2,224,532
Nordson	13,000		666,770
Timken	30,100		1,378,279
URS	37,400		1,304,512
			14,525,714
Commercial & Professional Services—2.1%			
Deluxe	67,600		1,685,944
Herman Miller	70,500		1,305,660
			2,991,604
Consumer Durables & Apparel—.5%			
Tupperware Brands	13,000		**711,880**
Consumer Services—4.9%			
Bob Evans Farms	53,400		2,146,680
Brinker International	34,350		1,094,735
H&R Block	90,400		1,444,592

Common Stocks (continued)	Shares		Value ($)
Consumer Services (continued)			
International Speedway, Cl. A	16,100		421,498
ITT Educational Services	13,500	a,b	820,125
Penn National Gaming	17,400	a	775,866
Wynn Resorts	3,200		331,904
			7,035,400
Diversified Financials—4.4%			
American Capital	48,200	a	485,374
Discover Financial Services	23,700		819,546
Greenhill & Co.	25,700	b	916,205
Moody's	4,000		146,200
NASDAQ OMX Group	34,200		775,314
SEI Investments	91,500		1,819,935
Waddell & Reed Financial, Cl. A	46,700		1,414,076
			6,376,650
Energy—6.0%			
Denbury Resources	25,700	a	388,327
Helix Energy Solutions Group	116,000	a	1,903,560
HollyFrontier	38,500		1,364,055
Kosmos Energy	61,000	a	674,050
Murphy Oil	15,200		764,408
Oceaneering International	30,000		1,435,800
Plains Exploration & Production	38,400	a	1,350,912
Tesoro	33,900	a	846,144
			8,727,256
Food, Beverage & Tobacco—3.7%			
Constellation Brands, Cl. A	81,500	a	2,205,390
Smithfield Foods	52,100	a	1,126,923
Tootsie Roll Industries	3,663	b	87,399
Universal	42,900	b	1,987,557
			5,407,269
Health Care Equipment & Services—6.6%			
Hill-Rom Holdings	61,000		1,881,850
Humana	15,500		1,200,320
ResMed	83,600	a	2,608,320

Common Stocks (continued)	Shares		Value ($)
Health Care Equipment & Services (continued)			
Thoratec	56,900	a	1,910,702
Universal Health Services, Cl. B	43,400		1,873,144
			9,474,336
Household & Personal Products—1.7%			
Church & Dwight	44,800		**2,485,056**
Insurance—3.7%			
Assurant	21,900		762,996
Lincoln National	13,600		297,432
Protective Life	33,900		996,999
Reinsurance Group of America	42,600		2,266,746
StanCorp Financial Group	26,900		999,604
			5,323,777
Materials—5.3%			
CF Industries Holdings	3,200		619,968
Domtar	20,400		1,564,884
Minerals Technologies	31,900		2,034,582
NewMarket	9,020		1,953,732
Rockwood Holdings	12,700		563,245
Steel Dynamics	80,400		944,700
			7,681,111
Media—1.4%			
Scholastic	38,000		1,070,080
Valassis Communications	45,300	a,b	985,275
			2,055,355
Pharmaceuticals & Biotechnology—5.7%			
Agilent Technologies	21,100		827,964
Charles River Laboratories International	29,100	a	953,316
Covance	5,800	a	277,530
Medicis Pharmaceutical, Cl. A	22,600		771,790
Mettler-Toledo International	9,000	a	1,402,650
Techne	26,900		1,995,980
United Therapeutics	22,200	a	1,096,236
Warner Chilcott, Cl. A	47,800	a	856,576
			8,182,042

Common Stocks (continued)	Shares		Value ($)
Real Estate—8.1%			
BRE Properties	25,900	c	1,295,518
Hospitality Properties Trust	61,400	c	1,520,878
Kimco Realty	11,300	c	215,039
Liberty Property Trust	35,200	b,c	1,296,768
Macerich	6,047	c	357,075
Mack-Cali Realty	75,200	c	2,186,064
National Retail Properties	40,700	c	1,151,403
Rayonier	57,450	c	2,579,505
SL Green Realty	13,700	c	1,099,288
			11,701,538
Retailing—6.3%			
Aaron's	63,900		1,809,009
Advance Auto Parts	12,000		818,640
ANN	32,700	a	833,523
Best Buy	21,100	b	442,256
Big Lots	1,900	a	77,501
Dillard's, Cl. A	13,500		859,680
GameStop, Cl. A	32,500	b	596,700
O'Reilly Automotive	13,000	a	1,089,010
PetSmart	35,600		2,427,208
Williams-Sonoma	5,700		199,329
			9,152,856
Semiconductors & Equipment—2.3%			
Advanced Micro Devices	121,800	a	697,914
LSI	117,000	a	745,290
Silicon Laboratories	50,500	a	1,913,950
			3,357,154
Software & Services—7.6%			
Acxiom	52,400	a	791,764
CA	79,600		2,156,364
Cadence Design Systems	160,800	a	1,767,192
DST Systems	37,944		2,060,739
FactSet Research Systems	10,200		947,988

Common Stocks (continued)	Shares		Value ($)
Software & Services (continued)			
Fair Isaac	28,200		1,192,296
IAC/InterActiveCorp	7,100		323,760
Synopsys	59,100	a	1,739,313
			10,979,416
Technology Hardware & Equipment—5.7%			
Brocade Communications Systems	102,000	a	502,860
Diebold	25,700		948,587
Dolby Laboratories, Cl. A	18,100	a	747,530
Lexmark International, Cl. A	53,300		1,416,714
Plantronics	49,400		1,649,960
QLogic	71,800	a	982,942
Tech Data	42,400	a	2,042,408
			8,291,001
Telecommunication Services—.4%			
Telephone & Data Systems	27,528		**586,071**
Transportation—1.6%			
Alaska Air Group	62,900	a	**2,258,110**
Utilities—6.6%			
Cleco	40,100		1,677,383
Great Plains Energy	112,300		2,404,343
Hawaiian Electric Industries	62,500		1,782,500
NV Energy	69,600		1,223,568
Questar	119,600		2,494,856
			9,582,650
Total Common Stocks (cost $135,854,611)			**143,536,572**

Other Investment—.7%			
Registered Investment Company;			
Dreyfus Institutional Preferred Plus Money Market Fund (cost $1,060,173)	1,060,173	d	**1,060,173**

Investment of Cash Collateral for Securities Loaned—4.4%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Fund (cost $6,374,041)	6,374,041 [d]	**6,374,041**
Total Investments (cost $143,288,825)	**104.5%**	**150,970,786**
Liabilities, Less Cash and Receivables	**(4.5%)**	**(6,493,355)**
Net Assets	**100.0%**	**144,477,431**

[a] *Non-income producing security.*

[b] *Security, or portion thereof, on loan. At June 30, 2012, the value of the fund's securities on loan was $6,344,886 and the value of the collateral held by the fund was $6,374,041.*

[c] *Investment in real estate investment trust.*

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

Portfolio Summary (Unaudited)†

	Value (%)		Value (%)
Capital Goods	10.1	Insurance	3.7
Real Estate	8.1	Food, Beverage & Tobacco	3.7
Software & Services	7.6	Banks	3.3
Utilities	6.6	Semiconductors & Equipment	2.3
Health Care Equipment & Services	6.6	Commercial & Professional Services	2.1
Retailing	6.3	Household & Personal Products	1.7
Energy	6.0	Transportation	1.6
Pharmaceuticals & Biotechnology	5.7	Automobiles & Components	1.4
Technology Hardware & Equipment	5.7	Media	1.4
Materials	5.3	Consumer Durables & Apparel	.5
Money Market Investments	5.1	Telecommunication Services	.4
Consumer Services	4.9		
Diversified Financials	4.4		**104.5**

† *Based on net assets.*

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2012 (Unaudited)

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments (including securities on loan, valued at $6,344,886)—Note 1(b):		
Unaffiliated issuers	135,854,611	143,536,572
Affiliated issuers	7,434,214	7,434,214
Cash		6,307
Dividends and securities lending income receivable		147,316
Prepaid expenses		1,635
		151,126,044
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(b)		101,666
Liability for securities on loan—Note 1(b)		6,374,041
Payable for shares of Beneficial Interest redeemed		105,705
Accrued expenses		67,201
		6,648,613
Net Assets ($)		**144,477,431**
Composition of Net Assets ($):		
Paid-in capital		165,554,074
Accumulated undistributed investment income—net		699,299
Accumulated net realized gain (loss) on investments		(29,457,903)
Accumulated net unrealized appreciation (depreciation) on investments		7,681,961
Net Assets ($)		**144,477,431**

Net Asset Value Per Share

	Initial Shares	Service Shares
Net Assets ($)	127,348,917	17,128,514
Shares Outstanding	8,957,759	1,205,767
Net Asset Value Per Share ($)	**14.22**	**14.21**

See notes to financial statements.

STATEMENT OF OPERATIONS

Six Months Ended June 30, 2012 (Unaudited)

Investment Income ($):	
Income:	
Cash dividends:	
Unaffiliated issuers	1,195,243
Affiliated issuers	420
Income from securities lending—Note 1(b)	148,342
Total Income	**1,344,005**
Expenses:	
Management fee—Note 3(a)	554,790
Professional fees	28,985
Distribution fees—Note 3(b)	22,423
Custodian fees—Note 3(b)	18,013
Prospectus and shareholders' reports	4,646
Trustees' fees and expenses—Note 3(c)	3,061
Shareholder servicing costs—Note 3(b)	1,999
Loan commitment fees—Note 2	515
Miscellaneous	9,239
Total Expenses	**643,671**
Less—reduction in fees due to earnings credits—Note 3(b)	(2)
Net Expenses	**643,669**
Investment Income—Net	**700,336**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	7,092,347
Net unrealized appreciation (depreciation) on investments	4,075,742
Net Realized and Unrealized Gain (Loss) on Investments	**11,168,089**
Net Increase in Net Assets Resulting from Operations	**11,868,425**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended June 30, 2012 (Unaudited)	Year Ended December 31, 2011
Operations ($):		
Investment income—net	700,336	633,871
Net realized gain (loss) on investments	7,092,347	21,917,984
Net unrealized appreciation (depreciation) on investments	4,075,742	(21,388,110)
Net Increase (Decrease) in Net Assets Resulting from Operations	**11,868,425**	**1,163,745**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(595,625)	(723,203)
Service Shares	(38,075)	(69,975)
Total Dividends	**(633,700)**	**(793,178)**
Beneficial Interest Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	5,042,046	8,855,532
Service Shares	766,347	2,487,648
Dividends reinvested:		
Initial Shares	595,625	723,203
Service Shares	38,075	69,975
Cost of shares redeemed:		
Initial Shares	(11,339,476)	(33,901,325)
Service Shares	(2,097,437)	(5,108,937)
Increase (Decrease) in Net Assets from Beneficial Interest Transactions	**(6,994,820)**	**(26,873,904)**
Total Increase (Decrease) in Net Assets	**4,239,905**	**(26,503,337)**
Net Assets ($):		
Beginning of Period	140,237,526	166,740,863
End of Period	**144,477,431**	**140,237,526**
Undistributed investment income—net	699,299	632,663

	Six Months Ended June 30, 2012 (Unaudited)	Year Ended December 31, 2011
Capital Share Transactions:		
Initial Shares		
Shares sold	354,584	669,033
Shares issued for dividends reinvested	40,245	50,858
Shares redeemed	(795,975)	(2,534,215)
Net Increase (Decrease) in Shares Outstanding	**(401,146)**	**(1,814,324)**
Service Shares		
Shares sold	53,420	183,958
Shares issued for dividends reinvested	2,573	4,921
Shares redeemed	(148,112)	(379,066)
Net Increase (Decrease) in Shares Outstanding	**(92,119)**	**(190,187)**

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. The fund's total returns do not reflect expenses associated with variable annuity or insurance contracts. These figures have been derived from the fund's financial statements.

Initial Shares	Six Months Ended June 30, 2012 (Unaudited)	Year Ended December 31, 2011	2010	2009	2008	2007
Per Share Data ($):						
Net asset value, beginning of period	13.16	13.17	10.46	7.85	15.52	17.39
Investment Operations:						
Investment income—net [a]	.07	.06	.06	.11	.09	.12
Net realized and unrealized gain (loss) on investments	1.06	.00[b]	2.76	2.62	(5.63)	.19
Total from Investment Operations	1.13	.06	2.82	2.73	(5.54)	.31
Distributions:						
Dividends from investment income—net	(.07)	(.07)	(.11)	(.12)	(.12)	(.07)
Dividends from net realized gain on investments	–	–	–	–	(2.01)	(2.11)
Total Distributions	(.07)	(.07)	(.11)	(.12)	(2.13)	(2.18)
Net asset value, end of period	14.22	13.16	13.17	10.46	7.85	15.52
Total Return (%)	8.53[c]	.40	27.10	35.51	(40.42)	1.50
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	.84[d]	.86	.84	.84	.82	.80
Ratio of net expenses to average net assets	.84[d]	.86	.84	.84	.81	.80
Ratio of net investment income to average net assets	.98[d]	.50	.54	1.22	.76	.73
Portfolio Turnover Rate	40.06[c]	81.48	79.28	75.42	86.74	116.83
Net Assets, end of period ($ x 1,000)	127,349	123,187	147,155	131,962	125,701	277,602

[a] *Based on average shares outstanding at each month end.*
[b] *Amount represents less than $.01 per share.*
[c] *Not annualized.*
[d] *Annualized.*
See notes to financial statements.

Service Shares	Six Months Ended June 30, 2012 (Unaudited)	Year Ended December 31, 2011	2010	2009	2008	2007
Per Share Data ($):						
Net asset value, beginning of period	13.14	13.16	10.46	7.82	15.45	17.31
Investment Operations:						
Investment income—net[a]	.05	.02	.05	.10	.08	.09
Net realized and unrealized gain (loss) on investments	1.05	.01	2.76	2.63	(5.60)	.21
Total from Investment Operations	1.10	.03	2.81	2.73	(5.52)	.30
Distributions:						
Dividends from investment income—net	(.03)	(.05)	(.11)	(.09)	(.10)	(.05)
Dividends from net realized gain on investments	–	–	–	–	(2.01)	(2.11)
Total Distributions	(.03)	(.05)	(.11)	(.09)	(2.11)	(2.16)
Net asset value, end of period	14.21	13.14	13.16	10.46	7.82	15.45
Total Return (%)	8.36[b]	.20	26.94	35.33	(40.44)	1.39
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	1.09[c]	1.11	1.09	1.09	1.06	1.05
Ratio of net expenses to average net assets	1.09[c]	1.11	.97	.90	.90	.90
Ratio of net investment income to average net assets	.72[c]	.18	.40	1.16	.62	.58
Portfolio Turnover Rate	40.06[b]	81.48	79.28	75.42	86.74	116.83
Net Assets, end of period ($ x 1,000)	17,129	17,050	19,586	16,090	13,881	39,009

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

NOTE 1—Significant Accounting Policies:

Dreyfus Investment Portfolios (the "Company") 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 four series, including the MidCap Stock Portfolio (the "fund"). The fund is only offered to separate accounts established by insurance companies to fund variable annuity contracts and variable life insurance policies. The fund is a diversified series. The fund's investment objective is to seek 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"), a wholly-owned subsidiary of The Bank of New York Mellon Corporation ("BNY Mellon"), serves as the fund's investment adviser.

MBSC Securities 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 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, the expenses borne by each class, the allocation of certain transfer agency costs 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 Company 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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification is the exclusive reference of authoritative U.S. generally accepted accounting principles ("GAAP") recognized by the

FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal laws are also sources of authoritative GAAP for SEC registrants. The fund's financial statements are prepared in accordance with GAAP, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

The Company 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: The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price). GAAP establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Additionally, GAAP provides guidance on determining whether the volume and activity in a market has decreased significantly and whether such a decrease in activity results in transactions that are not orderly. GAAP requires enhanced disclosures around valuation inputs and techniques used during annual and interim periods.

Various inputs are used in determining the value of the fund's investments relating to fair value measurements. These inputs are summarized in the three broad levels listed below:

Level 1—unadjusted quoted prices in active markets for identical investments.

Level 2—other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.).

Level 3—significant unobservable inputs (including the fund's own assumptions in determining the fair value of investments).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Changes in valuation techniques may result in transfers in or out of an assigned level within the disclosure hierarchy. Valuation techniques used to value the fund's investments are as follows:

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. Registered investment companies that are not traded on an exchange are valued at their net asset value. All of the preceding securities are categorized within Level 1 of the fair value hierarchy.

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 American Depository Receipts and financial futures. Utilizing these techniques may result in transfers between Level 1 and Level 2 of the fair value hierarchy.

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 Company's Board of Trustees. Certain factors may be considered when fair valuing investments 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. These securities are either categorized as Level 2 or 3 depending on the relevant inputs used.

For restricted securities where observable inputs are limited, assumptions about market activity and risk are used and are categorized within Level 3 of the fair value hierarchy.

The following is a summary of the inputs used as of June 30, 2012 in valuing the fund's investments:

	Level 1– Unadjusted Quoted Prices	Level 2–Other Significant Observable Inputs	Level 3– Significant Unobservable Inputs	Total
Assets ($)				
Investments in Securities:				
Equity Securities– Domestic†	143,536,572	–	–	**143,536,572**
Mutual Funds	7,434,214	–	–	**7,434,214**

† *See Statement of Investments for additional detailed categorizations.*

For the period ended June 30, 2012, there were no transfers of exchange traded securities between Level 1 and Level 2 of the fair value hierarchy.

(b) Securities transactions and investment income: Securities transactions are recorded on a trade date basis. Realized gains and losses 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.

Pursuant to a securities lending agreement with The Bank of New York Mellon, a subsidiary of BNY Mellon and an affiliate of Dreyfus, the fund may lend securities to qualified institutions. It is the fund's policy that, 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 is maintained at all times. Collateral is either in the form of cash, which can be invested in certain money market mutual funds managed by the Manager, U.S. Government and Agency securities or letters of credit. The fund is 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 bears 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. During the period ended June 30, 2012, The Bank of New York Mellon earned $63,575 from lending portfolio securities, pursuant to the securities lending agreement.

(c) Affiliated issuers: Other investment companies advised by Dreyfus are considered to be "affiliated" with the fund.

The fund may invest in shares of certain affiliated investment companies also advised or managed by Dreyfus. Investments in affiliated investment companies for the period ended June 30, 2012 were as follows:

Affiliated Investment Company	Value 12/31/2011 ($)	Purchases ($)	Sales ($)	Value 6/30/2012 ($)	Net Assets (%)
Dreyfus Institutional Preferred Plus Money Market Fund	1,024,565	11,535,324	11,499,716	1,060,173	.7
Dreyfus Institutional Cash Advantage Fund	15,146,438	28,192,000	36,964,397	6,374,041	4.4
Total	**16,171,003**	**39,727,324**	**48,464,113**	**7,434,214**	**5.1**

(d) Dividends to shareholders: Dividends are recorded on the ex-dividend date. Dividends from investment income-net and dividends from net realized capital gains, 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 gains can be offset by capital loss carryovers, it is the policy of the fund not to distribute such gains. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP.

(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.

As of and during the period ended June 30, 2012, the fund did not have any liabilities for any uncertain tax positions. The fund recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense in the Statement of Operations. During the period, the fund did not incur any interest or penalties.

Each of the tax years in the three-year period ended December 31, 2011 remains subject to examination by the Internal Revenue Service and state taxing authorities.

Under the Regulated Investment Company Modernization Act of 2010 (the "2010 Act"), the fund is permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 ("post-enactment losses") for an unlimited period. Furthermore, post-enactment capital loss carryovers retain their character as either short-term or long-term capital losses rather than short-term as they were under previous statute. The 2010 Act requires post-enactment losses to be utilized before the utilization of losses incurred in taxable years prior to the effective date of the 2010 Act ("pre-enactment losses"). As a result of this ordering rule, pre-enactment losses may be more likely to expire unused.

The fund has an unused capital loss carryover of $35,442,133 available for federal income tax purposes to be applied against future realized capital gains, if any, realized subsequent to December 31, 2011. If not applied, the carryover expires in fiscal year 2017.

The tax character of distributions paid to shareholders during the fiscal year ended December 31, 2011 was as follows: ordinary income $793,178. The tax character of current year distributions will be determined at the end of the current fiscal year.

NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in a $225 million unsecured credit facility led by Citibank, N.A. and a $300 million unsecured credit facility provided by The Bank of New York Mellon (each, a "Facility"), each to be utilized primarily for temporary or emergency purposes, including the financing of redemptions. In connection therewith, the fund has agreed to pay its pro rata portion of commitment fees for each Facility. Interest is charged to the fund based on rates determined pursuant to the terms of the respective Facility at the time of borrowing. During the period ended June 30, 2012, the fund did not borrow under the Facilities.

NOTE 3—Management Fee and Other Transactions With Affiliates:

(a) Pursuant to a management agreement with the Manager, the management fee is computed at the annual rate of .75% 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 its 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 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, 2012, Service shares were charged $22,423 pursuant to the 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 and cash management services for the fund. During the period ended June 30, 2012, the fund was charged $325 pursuant to the transfer agency agreement, which is included in Shareholder servicing costs in the Statement of Operations.

The fund compensates The Bank of New York Mellon under a custody agreement for providing custodial services for the fund. During the period ended June 30, 2012, the fund was charged $18,013 pursuant to the custody agreement.

The fund has arrangements with the transfer agent and the custodian whereby the fund may receive earnings credits when positive cash balances are maintained, which are used to offset transfer agency and custody fees. For financial reporting purposes, the fund includes net earnings credits as an expense offset in the Statement of Operations.

Prior to May 29, 2012, the fund compensated The Bank of New York Mellon under a cash management agreement for performing cash management services related to fund subscriptions and redemptions. During the period ended June 30, 2012, the fund was charged $47 pursuant to the cash management agreement, which is included in Shareholder servicing costs in the Statement of Operations. These fees were partially offset by earnings credits of $2.

During the period ended June 30, 2012, the fund was charged $3,183 for services performed by the Chief Compliance Officer and his staff.

The components of "Due to The Dreyfus Corporation and affiliates" in the Statement of Assets and Liabilities consist of: management fees $86,119, Plan fees $3,394, custodian fees $8,714, Chief Compliance Officer fees $3,183 and transfer agency per account fees $256.

(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, 2012, amounted to $59,009,061 and $65,743,180, respectively.

At June 30, 2012, accumulated net unrealized appreciation on investments was $7,681,961, consisting of $15,828,087 gross unrealized appreciation and $8,146,126 gross unrealized depreciation.

At June 30, 2012, 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).

NOTES

For More Information

Dreyfus Investment Portfolios, MidCap Stock Portfolio
200 Park Avenue
New York, NY 10166

Manager

The Dreyfus Corporation
200 Park Avenue
New York, NY 10166

Custodian

The Bank of New York Mellon
One Wall Street
New York, NY 10286

Transfer Agent & Dividend Disbursing Agent

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

Distributor

MBSC Securities Corporation
200 Park Avenue
New York, NY 10166

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

Mail The Dreyfus Family of Funds, 144 Glenn Curtiss Boulevard, Uniondale, NY 11556-0144
Attn: Investments Division

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 most recent 12-month period ended June 30 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-DREYFUS.

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JUNE 30, 2012

SEMIANNUAL REPORT

DWS VARIABLE SERIES I

DWS Bond VIP

Deutsche Bank Group

Contents

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus or summary prospectus, if available, call (800) 728-3337 or your financial representative. We advise you to consider the Fund's objectives, risks, charges and expenses carefully before investing. The summary prospectus and prospectus contain this and other important information about the Fund. Please read the prospectus carefully before you invest.

Bond investments are subject to interest-rate and credit risks. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. See the prospectus for details.

DWS Investments is part of Deutsche Bank's Asset Management division and, within the U.S., represents the retail asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.

NOT FDIC/NCUA INSURED NO BANK GUARANTEE MAY LOSE VALUE NOT A DEPOSIT
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

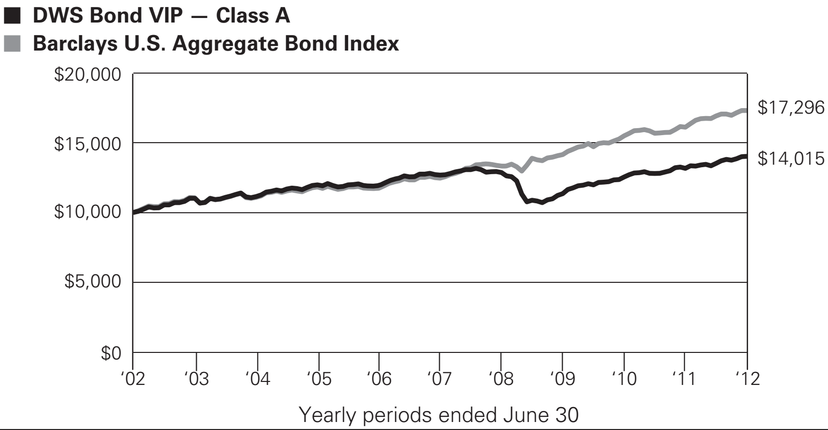
Performance Summary

June 30, 2012 (Unaudited)

Fund 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 contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns.

The gross expense ratio of the Fund, as stated in the fee table of the prospectus dated May 1, 2012 is 0.62% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Growth of an Assumed $10,000 Investment



The Barclays U.S. Aggregate Bond Index is an unmanaged index representing domestic taxable investment-grade bonds, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities with an average maturity of one year or more.

Index returns do not reflect any fees or expenses and it is not possible to invest directly into an index.

Comparative Results

DWS Bond VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,375	$10,654	$12,356	$11,059	$14,015
	Average annual total return	3.75%	6.54%	7.31%	2.03%	3.43%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$10,237	$10,747	$12,227	$13,890	$17,296
	Average annual total return	2.37%	7.47%	6.93%	6.79%	5.63%

The growth of $10,000 is cumulative.

‡ Total returns shown for periods less than one year are not annualized.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Total Net Assets)	**6/30/12**	**12/31/11**
Government & Agency Obligations	37%	38%
Mortgage-Backed Securities Pass-Throughs	35%	42%
Corporate Bonds	24%	28%
Municipal Bonds and Notes	7%	7%
Collateralized Mortgage Obligations	5%	4%
Commercial Mortgage-Backed Securities	4%	7%
Asset-Backed	1%	3%
Cash Equivalents and other Assets and Liabilities, net	–13%	–29%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	**6/30/12**	**12/31/11**
AAA	65%	64%
AA	6%	5%
A	7%	7%
BBB	14%	15%
BB or Below	4%	7%
Not Rated	4%	2%
	100%	100%

Interest Rate Sensitivity	**6/30/12**	**12/31/11**
Effective Maturity	6.7 years	6.9 years
Effective Duration	5.1 years	4.9 years

The quality ratings represent the higher 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. Credit quality measures a bond issuer's ability to repay interest and principal in a timely manner. Ratings are relative and subjective and are not absolute standards of quality. Credit quality does not remove market risk and is subject to change.

Effective maturity is the weighted average of the maturity date of bonds held by the Fund taking into consideration any available maturity shortening features.

Effective duration is an approximate measure of the Fund's sensitivity to interest rate changes taking into consideration any maturity shortening features.

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 5.

Following the Fund'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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management Team

William Chepolis, CFA
John D. Ryan
Eric S. Meyer, CFA
Gary Russell, CFA
Ohn Choe, CFA
Portfolio Managers

Investment Portfolio

June 30, 2012 (Unaudited)

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 24.2%		
Consumer Discretionary 5.6%		
AMC Entertainment, Inc., 8.75%, 6/1/2019	1,043,000	1,118,617
CBS Corp., 3.375%, 3/1/2022	500,000	498,148
CCO Holdings LLC, 6.5%, 4/30/2021	420,000	447,300
DIRECTV Holdings LLC:		
2.4%, 3/15/2017	1,050,000	1,056,914
3.125%, 2/15/2016	200,000	208,360
6.35%, 3/15/2040	427,000	483,764
Levi Strauss & Co., 7.625%, 5/15/2020 (b)	300,000	318,750
Lowe's Companies, Inc., 1.625%, 4/15/2017	750,000	755,560
Macy's Retail Holdings, Inc., 3.875%, 1/15/2022	630,000	662,365
MGM Resorts International, 9.0%, 3/15/2020	1,050,000	1,165,500
NBCUniversal Media LLC:		
5.15%, 4/30/2020	500,000	574,035
5.95%, 4/1/2041	272,000	321,090
Norcraft Companies LP, 10.5%, 12/15/2015	100,000	99,000
Royal Caribbean Cruises Ltd., 7.25%, 6/15/2016	750,000	810,000
Time Warner Cable, Inc.:		
4.0%, 9/1/2021	530,000	556,952
7.3%, 7/1/2038	40,000	51,373
Time Warner, Inc., 7.625%, 4/15/2031	650,000	839,567
Yum! Brands, Inc.:		
3.875%, 11/1/2020	765,000	822,120
5.3%, 9/15/2019	100,000	114,919
		10,904,334
Consumer Staples 1.7%		
Anheuser-Busch InBev Worldwide, Inc., 7.75%, 1/15/2019	1,150,000	1,518,867
CVS Caremark Corp., 5.75%, 5/15/2041	225,000	267,843
JBS U.S.A. LLC, 144A, 8.25%, 2/1/2020	1,100,000	1,069,750
Kellogg Co., 4.0%, 12/15/2020	200,000	220,148
Kroger Co., 6.9%, 4/15/2038	100,000	122,550
		3,199,158
Energy 3.6%		
Apache Corp., 3.25%, 4/15/2022	550,000	574,317
DCP Midstream LLC, 144A, 9.75%, 3/15/2019	760,000	985,270
Encana Corp., 5.15%, 11/15/2041	206,000	196,782
Enterprise Products Operating LLC:		
4.6%, 8/1/2012	500,000	501,448
6.125%, 10/15/2039	460,000	521,098
ONEOK Partners LP, 6.15%, 10/1/2016	878,000	1,020,649
Petroleos Mexicanos, 144A, 5.5%, 6/27/2044	550,000	562,375
Phillips 66, 144A, 2.95%, 5/1/2017	523,000	537,418
Reliance Holdings U.S.A., Inc., 144A, 4.5%, 10/19/2020	650,000	610,860
Weatherford International Ltd., 5.125%, 9/15/2020	1,250,000	1,341,936
Williams Partners LP, 4.0%, 11/15/2021	200,000	207,755
		7,059,908
Financials 6.2%		
American International Group, Inc., 4.875%, 6/1/2022	400,000	409,289
Bank of America Corp.:		
5.65%, 5/1/2018	365,000	390,292
5.75%, 12/1/2017	360,000	384,191
6.5%, 8/1/2016	80,000	87,851
Bank of New York Mellon Corp., 2.4%, 1/17/2017	550,000	567,856
Berkshire Hathaway, Inc., 1.9%, 1/31/2017	520,000	530,284
Bunge Ltd. Finance Corp., 4.1%, 3/15/2016	248,000	258,603
Citigroup, Inc., 4.5%, 1/14/2022	432,000	446,193
CNA Financial Corp., 5.75%, 8/15/2021	1,001,000	1,099,909
Ford Motor Credit Co., LLC:		
3.0%, 6/12/2017	485,000	482,328
7.0%, 4/15/2015	925,000	1,028,026
General Electric Capital Corp., 2.9%, 1/9/2017	1,805,000	1,864,397
JPMorgan Chase & Co., 5.125%, 9/15/2014	1,100,000	1,168,622
Nationwide Financial Services, Inc., 144A, 5.375%, 3/25/2021	410,000	423,362
PNC Bank NA, 6.875%, 4/1/2018	200,000	238,578
PNC Funding Corp., 3.3%, 3/8/2022	1,020,000	1,040,200
Prudential Financial, Inc., 7.375%, 6/15/2019	170,000	207,481
SunTrust Banks, Inc., 3.6%, 4/15/2016	335,000	347,855
The Goldman Sachs Group, Inc., 6.0%, 6/15/2020	880,000	939,461
Toll Brothers Finance Corp., 8.91%, 10/15/2017	200,000	245,848
		12,160,626
Health Care 1.3%		
Amgen, Inc., 5.15%, 11/15/2041	520,000	542,836
Express Scripts Holding Co.:		
6.25%, 6/15/2014	205,000	224,145
7.25%, 6/15/2019	560,000	704,145
Gilead Sciences, Inc., 4.4%, 12/1/2021	390,000	430,474
McKesson Corp., 4.75%, 3/1/2021	475,000	544,956
		2,446,556
Industrials 1.3%		
ADT Corp., 144A, 3.5%, 7/15/2022	455,000	456,527
BAA Funding Ltd., 144A, 2.5%, 6/25/2015	335,000	336,875

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

	Principal Amount ($)(a)	Value ($)
Burlington Northern Santa Fe LLC, 3.45%, 9/15/2021	142,000	148,570
CSX Corp., 6.15%, 5/1/2037	650,000	797,366
Masco Corp., 6.125%, 10/3/2016	800,000	853,760
		2,593,098
Information Technology 1.3%		
Applied Materials, Inc., 5.85%, 6/15/2041	440,000	530,949
Equinix, Inc., 7.0%, 7/15/2021	850,000	935,000
Hewlett-Packard Co., 3.3%, 12/9/2016	715,000	747,355
Xerox Corp., 2.95%, 3/15/2017	284,000	287,217
		2,500,521
Materials 2.3%		
ArcelorMittal, 6.125%, 6/1/2018	1,000,000	1,013,947
Corporacion Nacional del Cobre — Codelco:		
144A, 3.75%, 11/4/2020	550,000	573,587
REG S, 7.5%, 1/15/2019	600,000	760,201
Dow Chemical Co.:		
4.125%, 11/15/2021	61,000	65,429
4.25%, 11/15/2020	740,000	802,801
5.25%, 11/15/2041	100,000	110,544
Freeport-McMoRan Copper & Gold, Inc., 3.55%, 3/1/2022	790,000	777,264
Teck Resources Ltd., 3.0%, 3/1/2019	400,000	397,363
		4,501,136
Telecommunication Services 0.3%		
AT&T, Inc., 3.875%, 8/15/2021	215,000	234,191
Frontier Communications Corp., 7.875%, 4/15/2015	332,000	365,200
		599,391
Utilities 0.6%		
DTE Energy Co., 7.625%, 5/15/2014	300,000	334,677
Energy Future Competitive Holdings Co., 7.48%, 1/1/2017	24,284	21,339
FirstEnergy Solutions Corp., 6.8%, 8/15/2039	659,000	692,048
Majapahit Holding BV, REG S, 7.75%, 10/17/2016	100,000	114,250
		1,162,314
Total Corporate Bonds (Cost $44,404,421)		**47,127,042**

Mortgage-Backed Securities Pass-Throughs 34.8%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp.:		
3.5%, 4/1/2042	9,397,309	9,899,110
4.0%, 8/1/2039	1,094,431	1,178,780
4.5%, 6/1/2041	3,914,014	4,178,975
5.484%*, 2/1/2038	297,145	323,563
5.5%, with various maturities from 10/1/2023 until 8/1/2024	231,489	256,362
6.0%, with various maturities from 12/1/2034 until 3/1/2038	568,377	627,545
6.5%, 3/1/2026	513,672	582,390
7.0%, 1/1/2038	74,851	84,927
Federal National Mortgage Association:		
2.441%*, 8/1/2037	252,491	266,257
3.0%, 9/1/2026 (c)	10,862,500	11,380,166
4.0%, with various maturities from 6/1/2040 until 9/1/2040 (c)	23,222,037	24,745,540
4.5%, with various maturities from 10/1/2033 until 5/1/2041	547,662	587,669
5.0%, with various maturities from 2/1/2021 until 8/1/2040	2,744,830	2,972,806
5.249%*, 9/1/2038	167,232	179,356
5.356%*, 1/1/2038	277,544	295,147
5.5%, with various maturities from 12/1/2032 until 4/1/2037	3,162,332	3,470,856
6.0%, with various maturities from 4/1/2024 until 3/1/2025	1,004,487	1,120,616
6.5%, with various maturities from 3/1/2017 until 12/1/2037	1,350,078	1,514,752
8.0%, 9/1/2015	11,515	12,225
Government National Mortgage Association, 3.0%, 1/1/2042 (c)	4,000,000	4,143,125
Total Mortgage-Backed Securities Pass-Throughs (Cost $66,613,494)		**67,820,167**

Asset-Backed 0.9%

Credit Card Receivables

	Principal Amount ($)(a)	Value ($)
Citibank Omni Master Trust, "A14", Series 2009-A14A, 144A, 2.992%*, 8/15/2018 (Cost $1,842,012)	1,750,000	**1,837,712**

Commercial Mortgage-Backed Securities 4.4%

	Principal Amount ($)(a)	Value ($)
Banc of America Large Loan, Inc., "HLTN", Series 2010-HLTN, 144A, 1.992%*, 11/15/2015	1,777,789	1,684,485
Banc of America Merrill Lynch Commercial Mortgage, Inc., "A2", Series 2007-2, 5.634%*, 4/10/2049	119,227	123,478
Bear Stearns Commercial Mortgage Securities, Inc., "A4", Series 2007-PW16, 5.906%*, 6/11/2040	240,000	274,416
Greenwich Capital Commercial Funding Corp., "A4", Series 2007-GG9, 5.444%, 3/10/2039	1,750,000	1,941,326
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"A4", Series 2007-C1, 5.716%, 2/15/2051	960,000	1,086,420
"F", Series 2007-LD11, 6.009%*, 6/15/2049	650,000	59,670
"G", Series 2007-LD11, 144A, 6.009%*, 6/15/2049	760,000	48,406
"H", Series 2007-LD11, 144A, 6.009%*, 6/15/2049	460,000	11,638
LB-UBS Commercial Mortgage Trust:		
"E", Series 2005-C2, 5.498%*, 4/15/2040	500,000	200,437
"A4", Series 2007-C6, 5.858%, 7/15/2040	1,315,000	1,501,814
Merrill Lynch Mortgage Trust, "ASB", Series 2007-C1, 6.041%*, 6/12/2050	1,490,000	1,590,050

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

	Principal Amount ($)(a)	Value ($)
Wachovia Bank Commercial Mortgage Trust, "H", Series 2007-C32, 144A, 5.927%*, 6/15/2049	770,000	46,200
Total Commercial Mortgage-Backed Securities (Cost $10,708,519)		**8,568,340**

Collateralized Mortgage Obligations 4.7%

	Principal Amount ($)(a)	Value ($)
Countrywide Home Loans, "A2", Series 2006-1, 6.0%, 3/25/2036	518,674	428,992
CS First Boston Mortgage Securities Corp., "10A3", Series 2005-10, 6.0%, 11/25/2035	151,248	91,308
Federal Home Loan Mortgage Corp.:		
"NI", Series 4020, Interest Only, 3.0%, 3/15/2027	396,172	45,541
"LI", Series 3838, Interest Only, 4.5%, 4/15/2022	1,613,942	141,585
"PE", Series 2898, 5.0%, 5/15/2033	335,000	348,839
Federal National Mortgage Association:		
''IO", Series 2010-143, Interest Only, 5.0%, 12/25/2025	3,775,084	457,270
"QD", Series 2005-29, 5.0%, 8/25/2033	435,000	458,987
"EG", Series 2005-22, 5.0%, 11/25/2033	750,000	791,872
"TC", Series 2007-77, 5.5%, 9/25/2034	370,000	383,689
Government National Mortgage Association:		
"IU", Series 2010-164, Interest Only, 2.0%, 12/20/2013	3,905,607	83,585
"CI", Series 2010-145, Interest Only, 4.0%, 11/20/2035	537,533	49,295
"MI", Series 2010-85, Interest Only, 4.5%, 1/20/2036	2,564,405	259,679
"AI", Series 2011-94, Interest Only, 4.5%, 1/20/2039	4,420,175	524,783
"GI", Series 2010-89, Interest Only, 4.5%, 5/20/2039	2,013,360	309,324
"PD", Series 2011-25, 4.5%, 10/16/2039	1,000,000	1,143,579
"EI", Series 2010-134, Interest Only, 4.5%, 11/20/2039	2,680,602	421,690
"EI", Series 2011-162, Interest Only, 4.5%, 5/20/2040	2,358,405	318,003
"DI", Series 2011-40, Interest Only, 4.5%, 12/20/2040	4,846,440	616,018
"IM", Series 2010-87, Interest Only, 4.75%, 3/20/2036	2,674,602	299,736
"JI", Series 2010-67, Interest Only, 5.0%, 10/20/2033	1,379,655	103,448
"IA", Series 2010-58, Interest Only, 5.0%, 3/20/2039	3,857,897	562,702
"BI", Series 2010-168, Interest Only, 5.0%, 4/20/2040	2,847,087	718,817
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	495,734	72,740
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	1,012,993	150,216
"KI", Series 2010-130, Interest Only, 5.5%, 9/16/2040	327,822	58,360
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	349,950	55,768
MASTR Alternative Loans Trust:		
"5A1", Series 2005-1, 5.5%, 1/25/2020	224,556	229,589
"8A1", Series 2004-3, 7.0%, 4/25/2034	10,793	10,890
Total Collateralized Mortgage Obligations (Cost $10,047,420)		**9,136,305**

Government & Agency Obligations 36.6%

Sovereign Bonds 4.0%

		Principal Amount ($)(a)	Value ($)
Eskom Holdings SOC Ltd., REG S, 5.75%, 1/26/2021		400,000	437,500
Republic of Argentina, GDP Linked Note, 12/15/2035 (d)		410,000	31,067
Republic of Belarus, 8.95%, 1/26/2018		500,000	462,500
Republic of Chile, 3.25%, 9/14/2021		600,000	636,000
Republic of Croatia, REG S, 6.75%, 11/5/2019		850,000	853,162
Republic of Egypt, 9.1%, 9/20/2012	EGP	230,000	37,732
Republic of El Salvador, REG S, 8.25%, 4/10/2032		40,000	44,600
Republic of Indonesia, REG S, 4.875%, 5/5/2021		800,000	872,000
Republic of Lithuania:			
REG S, 5.125%, 9/14/2017		200,000	211,000
144A, 6.125%, 3/9/2021		225,000	247,500
Republic of Panama:			
5.2%, 1/30/2020		425,000	496,187
7.125%, 1/29/2026		220,000	297,000
7.25%, 3/15/2015		80,000	91,400
Republic of Peru, 7.35%, 7/21/2025		500,000	702,500
Republic of Poland, 5.0%, 3/23/2022		350,000	382,025
Republic of Serbia:			
REG S, 6.75%, 11/1/2024		845,834	812,000
REG S, 7.25%, 9/28/2021		300,000	308,250
Russian Federation, REG S, 5.0%, 4/29/2020		800,000	870,000
			7,792,423

U.S. Treasury Obligations 32.6%

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Bill, 0.13%**, 9/6/2012 (e)	135,000	134,983
U.S. Treasury Bonds:		
3.75%, 8/15/2041	2,500,000	3,014,845
4.75%, 2/15/2037 (b)	5,300,000	7,387,702
5.375%, 2/15/2031	3,500,000	5,100,158
7.125%, 2/15/2023	1,900,000	2,905,218
U.S. Treasury Notes:		
0.5%, 10/15/2013	6,000,000	6,016,404
1.0%, 1/15/2014	955,000	965,035
1.0%, 8/31/2016 (b)	31,600,000	32,096,215
1.5%, 7/31/2016	4,250,000	4,403,068
2.0%, 11/15/2021	1,450,000	1,503,356
		63,526,984
Total Government & Agency Obligations (Cost $67,729,947)		**71,319,407**

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

	Principal Amount ($)(a)	Value ($)
Loan Participations and Assignments 0.2%		
Sovereign Loans		
Gazprom OAO, 144A, 8.125%, 7/31/2014	205,000	224,390
Russian Agricultural Bank, REG S, 7.75%, 5/29/2018	100,000	113,250
Total Loan Participations and Assignments (Cost $303,100)		**337,640**
Municipal Bonds and Notes 6.8%		
California, University Revenues, Build America Bonds, 5.946%, 5/15/2045	600,000	748,368
Chicago, IL, Transit Authority, Sales Tax Receipts Revenue, Build America Bonds, Series B, 6.2%, 12/1/2040	265,000	292,722
Glendale, AZ, Municipal Property Corp., Excise Tax Revenue, Series B, 6.157%, 7/1/2033, INS: AGMC	420,000	484,903
Gwinnett County, GA, Development Authority Revenue, Gwinnett Stadium Project, 6.4%, 1/1/2028	655,000	753,263
Jicarilla, NM, Sales & Special Tax Revenue, Apache Nation Revenue, 144A, 5.2%, 12/1/2013	630,000	629,502
Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018	2,075,000	2,138,702
Los Angeles, CA, Community Development Agency Tax Allocation Revenue, Adelante Eastside Project, Series C, 6.49%, 9/1/2037, INS: Radian	310,000	311,448
Louisville & Jefferson County, KY, Metropolitan Sewer District & Drain Systems, Build America Bonds, 6.25%, 5/15/2043	600,000	770,646
Miami-Dade County, FL, Educational Facilities Authority, University of Miami, Series B, 6.1%, 4/1/2015	525,000	540,640
Michigan, Western Michigan University Revenue, 4.41%, 11/15/2014, INS: AMBAC	475,000	481,132
Nashville & Davidson County, TN, Metropolitan Government, Convention Center Authority Revenue, Build America Bonds:		
Series B, 6.731%, 7/1/2043	400,000	453,932
Series A2, 7.431%, 7/1/2043	250,000	315,760
New Jersey, Economic Development Authority Revenue, Series B, 6.5%, 11/1/2013, INS: AGC	860,000	914,103
New Jersey, State Economic Development Authority Revenue, Series B, 6.5%, 11/1/2014, INS: AGC	585,000	644,881
New Jersey, State Educational Facilities Authority Revenue, NJ City University, Series F, 6.85%, 7/1/2036, INS: AGC	395,000	458,263
Newark, NJ, Pension Obligation, 5.853%, 4/1/2022, INS: AGMC	865,000	940,635
Port Authority New York & New Jersey, One Hundred Fiftieth Series, 4.75%, 9/15/2016	930,000	1,052,881
Rhode Island, Convention Center Authority Revenue, Civic Center, Series A, 6.06%, 5/15/2035, INS: AGMC	515,000	591,019
Virgin Islands, Port Authority Marine Revenue, Series B, 5.08%, 9/1/2013, INS: AGMC	465,000	469,292
Washington, Central Puget Sound Regional Transit Authority, Sales & Use Tax Revenue, Series A, 5.0%, 11/1/2036	285,000	316,658
Total Municipal Bonds and Notes (Cost $12,117,570)		**13,308,750**

	Shares	Value ($)
Securities Lending Collateral 5.9%		
Daily Assets Fund Institutional, 0.24% (f) (g) (Cost $11,616,210)	11,616,210	**11,616,210**
Cash Equivalents 4.3%		
Central Cash Management Fund, 0.14% (f) (Cost $8,402,393)	8,402,393	**8,402,393**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $233,785,086)†	122.8	**239,473,966**
Other Assets and Liabilities, Net	(22.8)	**(44,386,104)**
Net Assets	100.0	**195,087,862**

* Floating rate securities' yields vary with a designated market index or market rate, such as the coupon-equivalent of the U.S. Treasury Bill rate. These securities are shown at their current rate as of June 30, 2012.

** Annualized yield at time of purchase; not a coupon rate.

† The cost for federal income tax purposes was $233,785,086. At June 30, 2012, net unrealized appreciation for all securities based on tax cost was $5,688,880. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $9,440,261 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,751,381.

(a) Principal amount stated in U.S. dollars unless otherwise noted.

(b) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2012 amounted to $11,250,022, which is 5.8% of net assets.

(c) When-issued or delayed delivery security included.

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

(d) Security is linked to Argentine Republic Gross Domestic Product (GDP). Security does not pay principal over life of security or at expiration. Payments are based on growth of Argentina GDP, subject to certain conditions.

(e) At June 30, 2012, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(f) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(g) Represents collateral held in connection with securities lending. Income earned by the Fund is net of borrower rebates.

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.

AGC: Assured Guaranty Corp.

AGMC: Assured Guaranty Municipal Corp.

AMBAC: Ambac Financial Group, Inc.

GDP: Gross Domestic Product

INS: Insured

Interest Only: 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 of the pool of underlying mortgages.

Radian: Radian Asset Assurance, Inc.

REG S: Securities sold under Regulation S may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933.

Included in the Fund 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 Federal National Mortgage Association issues have similar coupon rates and have been aggregated for presentation purposes in the investment portfolio.

At June 30, 2012, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
Federal Republic of Germany Euro-Bund	EUR	9/6/2012	5	891,544	**2,521**

At June 30, 2012, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
10 Year U.S. Treasury Note	USD	9/19/2012	101	13,470,875	**1,700**

At June 30, 2012, open credit default swap contracts purchased were as follows:

Effective/ Expiration Date	Notional Amount ($)	Fixed Cash Flows Paid	Reference Entity	Value ($)	Upfront Payments Paid/(Received) ($)	Unrealized Appreciation ($)
3/20/2012 6/20/2017	5,791,500[1]	5.0%	Markit Dow Jones CDX North America High Yield Index	195,036	141,396	53,640
3/20/2012 6/20/2017	18,700,000[1]	1.0%	Markit Dow Jones CDX North America Investment Grade Index	106,894	(84,137)	191,031
Total unrealized appreciation						**244,671**

Counterparty:

[1] Citigroup, Inc.

As of June 30, 2012, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
RUB	800,000	USD	26,778	7/19/2012	**2,162**	JPMorgan Chase Securities, Inc.

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
USD	1,111,358	CNY	7,000,000	7/19/2012	**(10,881)**	HSBC Bank U.S.A.

Currency Abbreviations

CNY	Chinese Yuan	EUR	Euro	USD	United States Dollar
EGP	Egyptian Pound	RUB	Russian Ruble		

For information on the Fund's policy and additional disclosures regarding futures contracts, credit default swap contracts and forward foreign currency exchange contracts, please refer to Note B in the accompanying Notes to Financial Statements.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2012 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed Income Investments (h)				
Corporate Bonds	$ —	$ 47,127,042	$ —	$ 47,127,042
Mortgage-Backed Securities Pass-Throughs	—	67,820,167	—	67,820,167
Asset-Backed	—	1,837,712	—	1,837,712
Commercial Mortgage-Backed Securities	—	8,568,340	—	8,568,340
Collateralized Mortgage Obligations	—	9,136,305	—	9,136,305
Government & Agency Obligations	—	71,319,407	—	71,319,407
Loan Participations and Assignments	—	337,640	—	337,640
Municipal Bonds and Notes	—	13,308,750	—	13,308,750
Short-Term Investments (h)	20,018,603	—	—	20,018,603
Derivatives (i)	4,221	246,833	—	251,054
Total	**$ 20,022,824**	**$219,702,196**	**$ —**	**$239,725,020**

Liabilities				
Derivatives (i)	$ —	$ (10,881)	$ —	$ (10,881)
Total	**$ —**	**$ (10,881)**	**$ —**	**$ (10,881)**

There have been no transfers between Level 1 and Level 2 fair value measurements during the period ended June 30, 2012.

(h) See Investment Portfolio for additional detailed categorizations.

(i) Derivatives include unrealized appreciation (depreciation) on open futures contracts, credit default swap contracts and forward foreign currency exchange contracts.

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

Statement of Assets and Liabilities

as of June 30, 2012 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $213,766,483) — including $11,250,022 of securities loaned	$	219,455,363
Investment in Daily Assets Fund Institutional (cost $11,616,210)*		11,616,210
Investment in Central Cash Management Fund (cost $8,402,393)		8,402,393
Total investments, at value (cost $233,785,086)		239,473,966
Foreign currency, at value (cost $75,071)		70,971
Deposit from broker for swap contracts		495,000
Receivable for investments sold		8,279,266
Receivable for Fund shares sold		105,721
Interest receivable		1,655,775
Receivable for variation margin on futures contracts		67,801
Unrealized appreciation on swap contracts		244,671
Unrealized appreciation on forward foreign currency exchange contracts		2,162
Upfront payments paid on swap contracts		141,396
Foreign taxes recoverable		2,140
Other assets		90
Total assets		250,538,959
Liabilities		
Payable upon return of securities loaned		11,616,210
Payable for investments purchased		1,731,907
Payable for investments purchased — when-issued/delayed delivery securities		41,245,373
Payable for Fund shares redeemed		96,701
Payable upon return of deposit for swap contracts		495,000
Unrealized depreciation on forward foreign currency exchange contracts		10,881
Upfront payments received on swap contracts		84,137
Accrued management fee		62,381
Accrued Trustees' fees		1,985
Other accrued expenses and payables		106,522
Total liabilities		55,451,097
Net assets, at value	**$**	**195,087,862**
Net Assets Consist of		
Undistributed net investment income		1,785,634
Net unrealized appreciation (depreciation) on: Investments		5,688,880
Swap contracts		244,671
Futures		4,221
Foreign currency		(12,745)
Accumulated net realized gain (loss)		(35,397,542)
Paid-in capital		222,774,743
Net assets, at value	**$**	**195,087,862**
Class A		
Net Asset Value, offering and redemption price per share ($195,087,862 ÷ 34,397,873 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**5.67**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2012 (Unaudited)

Investment Income		
Income:		
Interest	$	2,382,089
Income distributions — Central Cash Management Fund		6,041
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		7,326
Total income		2,395,456
Expenses:		
Management fee		265,185
Administration fee		68,803
Services to shareholders		1,372
Custodian fee		9,282
Professional fees		30,672
Reports to shareholders		25,470
Trustees' fees and expenses		5,964
Other		15,142
Total expenses		421,890
Net investment income		**1,973,566**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		2,540,045
Swap contracts		13,070
Futures		(586,599)
Foreign currency		(63,945)
		1,902,571
Change in net unrealized appreciation (depreciation) on:		
Investments		745,481
Swap contracts		244,671
Futures		300,123
Foreign currency		(30,153)
		1,260,122
Net gain (loss)		**3,162,693**
Net increase (decrease) in net assets resulting from operations	**$**	**5,136,259**

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, 2012 (Unaudited)	Year Ended December 31, 2011
Operations:		
Net investment income (loss)	$ 1,973,566	$ 4,587,767
Net realized gain (loss)	1,902,571	997,538
Change in net unrealized appreciation (depreciation)	1,260,122	905,689
Net increase (decrease) in net assets resulting from operations	5,136,259	6,490,994
Distributions to shareholders from:		
Net investment income:		
Class A	(4,882,203)	(4,956,830)
Fund share transactions:		
Class A		
Proceeds from shares sold	14,020,950	13,875,163
Net assets acquired in tax free reorganization*	78,348,206	—
Reinvestment of distributions	4,882,203	4,956,830
Payments for shares redeemed	(14,353,372)	(63,808,031)
Net increase (decrease) in net assets from Class A share transactions	82,897,987	(44,976,038)
Increase (decrease) in net assets	83,152,043	(43,441,874)
Net assets at beginning of period	111,935,819	155,377,693
Net assets at end of period (including undistributed net investment income of $1,785,634 and $4,694,271, respectively)	**$ 195,087,862**	**$ 111,935,819**
Other Information		
Class A		
Shares outstanding at beginning of period	19,571,536	27,458,970
Shares sold	2,468,600	2,449,457
Shares issued in tax free reorganization*	13,990,523	—
Shares issued to shareholders in reinvestment of distributions	873,382	891,516
Shares redeemed	(2,506,168)	(11,228,407)
Net increase (decrease) in Class A shares	14,826,337	(7,887,434)
Shares outstanding at end of period	**34,397,873**	**19,571,536**

* On April 30, 2012, DWS Core Fixed Income VIP was acquired by the Fund through a tax-free reorganization (see Note H).

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

Financial Highlights

Class A	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$ 5.72**	**$ 5.66**	**$ 5.54**	**$ 5.50**	**$ 6.98**	**$ 7.03**
Income (loss) from investment operations:						
Net investment income[a]	.08	.22	.19	.25	.37	.35
Net realized and unrealized gain (loss)	.13	.09	.18	.26	(1.48)	(.06)
Total from investment operations	.21	.31	.37	.51	(1.11)	.29
Less distributions from:						
Net investment income	(.26)	(.25)	(.25)	(.47)	(.37)	(.34)
Net asset value, end of period	**$ 5.67**	**$ 5.72**	**$ 5.66**	**$ 5.54**	**$ 5.50**	**$ 6.98**
Total Return (%)	3.75**	5.68	6.79	10.07	(16.77)	4.18
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	195	112	155	159	155	229
Ratio of expenses (%)	.61*	.62	.59	.59	.59	.61
Ratio of net investment income (%)	2.87*	3.86	3.42	4.68	5.76	5.03
Portfolio turnover rate (%)	144**	219	357	284	196	185

a Based on average shares outstanding during the period.

* Annualized

** Not annualized

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

DWS 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 five diversified funds: DWS Bond VIP, DWS Core Equity VIP (formerly DWS Growth & Income VIP), DWS Capital Growth VIP, DWS Global Small Cap Growth VIP and DWS International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on DWS Bond VIP. 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").

The Fund'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 Fund in the preparation of its financial statements.

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.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Debt securities and loan participations and assignments are valued at prices supplied 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 one or more broker-dealers. 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. These securities are generally categorized as Level 2.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Futures contracts are generally valued at the settlement prices established each day on the exchange on which they are traded and are categorized as Level 1.

Swap contracts are valued daily based upon prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer. Swap contracts are generally categorized as Level 2.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and are categorized as Level 2.

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 and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the issuer of securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. 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 acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. 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 gain/appreciation and loss/depreciation on investments.

Loan Participations and Assignments. Loan Participations and Assignments are portions of loans originated by banks and sold in pieces to investors. These U.S. dollar-denominated fixed and floating rate loans ("Loans") in which the Fund invests, are arranged between the borrower and one or more financial institutions ("Lenders"). These Loans may take the form of Senior Loans, which are corporate obligations often issued in connection with recapitalizations, acquisitions, leveraged buy-outs and refinancings, and Sovereign Loans, which are debt instruments between a foreign sovereign entity and one or more financial institutions. The Fund 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 Fund having a contractual relationship only with the Lender, not with the borrower. The Fund 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 Fund generally has no right to enforce compliance by the borrower with the terms of the loan agreement relating to the Loan, or any rights of set-off against the borrower, and the Fund will not benefit directly from any collateral supporting the Loan in which it has purchased the Participation. As a result, the Fund assumes the credit risk of both the borrower and the Lender that is selling the Participation. Assignments typically result in the Fund having a direct contractual relationship with the borrower, and the Fund may enforce compliance by the borrower with the terms of the loan agreement. Loans held by the Fund generally in the form of Assignments but the Fund may also invest in Participations. All Loan Participations and Assignments involve interest rate risk, liquidity risk and credit risk, including the potential default or insolvency of the borrower.

When-Issued/Delayed Delivery Securities. The Fund may purchase or sell securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the Fund enters into a commitment to purchase or sell a security, the transaction is recorded and the value of the transaction 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. At the time the Fund enters into a purchase 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 transactions 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 Fund is treated as a separate taxpayer as provided for in the Internal Revenue Code, as amended. It is the Fund's policy 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 income to the separate accounts of the Participating Insurance Companies which hold its shares.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $36,827,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2017, the expiration date, whichever occurs first.

In addition, from November 1, 2011 through December 31, 2011, the Fund elects to defer qualified late year losses of approximately $503,000 of net long-term realized capital losses and treat them as arising in the fiscal year ending December 31, 2012.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. The Fund will declare and distribute dividends from its net investment income, if any, annually, 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 Fund if not distributed, and, therefore, will be distributed to shareholders at least annually.

The timing and characterization of certain income and capital gain 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 foreign denominated investments, investments in forward foreign currency exchange contracts, futures contracts, swap contracts 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 Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

The tax character of current year distributions will be determined at the end of the current fiscal year.

Expenses. Expenses of the Series arising in connection with a specific Fund are allocated to that Fund. Other Series expenses which cannot be directly attributed to a Fund are apportioned among the Funds in the Series.

Contingencies. In the normal course of business, the Fund may enter into contracts with service providers that contain general 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 been made. However, based on experience, the Fund expects 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 net of foreign withholding taxes. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes.

B. Derivative Instruments

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). For the six months ended June 30, 2012, the Fund invested in interest rate futures to gain exposure to different parts of the yield curve while managing the overall duration. The Fund also entered into currency futures contracts for non-hedging purposes to seek to enhance potential gains.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts disclosed in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of June 30, 2012, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $892,000 to $11,890,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $13,471,000 to $49,190,000.

Credit Default Swap Contracts. A credit default swap is a contract between a buyer and a seller of protection against pre-defined credit events for the reference entity. For the six months ended June 30, 2012, the Fund bought credit default swap contracts to hedge the risk of default on Fund securities. As a seller in the credit default swap contract, the Fund is required to pay the par (or other agreed-upon) value of the referenced entity to the counterparty with the occurrence of a credit event by a third party, such as a U.S. or foreign corporate issuer, on the reference entity, which would likely result in a loss to the Fund. In return, the Fund receives from the counterparty a periodic stream of payments over the term of the contract provided that no credit event has occurred. If no credit event occurs, the Fund keeps the stream of payments with no payment obligations. The Fund buys credit default swap contracts in order to hedge against the risk of a credit event on debt securities, in which case the Fund functions as the counterparty referenced above. This involves the risk that the contract may expire worthless. It also involves counterparty risk that the seller may fail to satisfy its payment obligations to the Fund with the occurrence of a credit event. When the Fund 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 reference entities for all outstanding credit default swap contracts sold by the Fund.

The value of the credit default swap is adjusted daily and the change in value, if any, is recorded daily as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Under the terms of the credit default swap contracts, the Fund receives or makes quarterly payments based on a specified interest rate on a fixed notional amount. These payments are recorded as a realized gain or loss in 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 in the Statement of Operations.

A summary of the open credit default swap contracts as of June 30, 2012 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the investment in credit default swap contracts purchased had a total notional value generally indicative of a range from $0 to approximately $24,492,000.

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 Fund is subject to foreign exchange rate risk in its securities denominated in foreign currencies. Changes in exchange rates between foreign currencies and the U.S. dollar may affect the U.S. dollar value of foreign securities or the income or gains received on these securities. To reduce the effect of currency fluctuations, the Fund may enter into forward currency contracts. For the six months ended June 30, 2012, the Fund invested in forward currency contracts to hedge its exposure to changes in foreign currency exchange rates on its foreign currency denominated securities. In addition, the Fund also engaged in forward currency contracts for non-hedging purposes to seek to enhance potential gains.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and unrealized gain (loss) is recorded daily. On the settlement date of the forward currency contract, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it was closed. Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. The maximum counterparty credit risk to the Fund is measured by the unrealized gain on appreciated contracts. Additionally, when utilizing forward currency contracts to hedge, the Fund gives up the opportunity to profit from favorable exchange rate movements during the term of the contract.

A summary of the open forward currency contracts as of June 30, 2012, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the investment in forward currency contracts U.S. dollars purchased had a total contract value generally indicative of a range from approximately $26,000 to $2,242,000, and the investment in forward currency contracts U.S. dollars sold had a total contract value generally indicative of a range from approximately $1,111,000 to $2,284,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2012 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ —	$ —	$ 4,221	$ 4,221
Credit Contracts (b)	—	244,671	—	244,671
Foreign Exchange Contracts (c)	2,162	—	—	2,162
	$ 2,162	**$ 244,671**	**$ 4,221**	**$ 251,054**

Each of the above derivatives is located in the following Statement of Assets and Liabilities accounts:

(a) Includes cumulative appreciation of futures contracts as disclosed in the Investment Portfolio. Unsettled variation margin is disclosed separately within the Statement of Assets and Liabilities.

(b) Unrealized appreciation on swap contracts

(c) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivative	**Forward Contracts**
Foreign Exchange Contracts (a)	$ (10,881)

The above derivative is located in the following Statement of Assets and Liabilities account:

(a) Unrealized depreciation on forward foreign currency exchange contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2012 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ —	$ —	$ (670,986)	$ (670,986)
Credit Contracts (b)	—	13,070	—	13,070
Foreign Exchange Contracts (c)	(63,733)	—	84,387	20,654
	$ (63,733)	**$ 13,070**	**$ (586,599)**	**$ (637,262)**

Each of the above derivatives is located in the following Statement of Operations accounts:

(a) Net realized gain (loss) from futures

(b) Net realized gain (loss) from swap contracts

(c) Net realized gain (loss) from foreign currency (Statement of Operations includes both forward currency contracts and foreign currency transactions)

Change in Net Unrealized Appreciation (Depreciation)	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ —	$ —	$ 321,222	$ 321,222
Credit Contracts (b)	—	244,671	—	244,671
Foreign Exchange Contracts (c)	(30,180)	—	(21,099)	(51,279)
	$ (30,180)	**$ 244,671**	**$ 300,123**	**$ 514,614**

Each of the above derivatives is located in the following Statement of Operations accounts:

(a) Change in net unrealized appreciation (depreciation) on futures

(b) Change in net unrealized appreciation (depreciation) on swap contracts

(c) Change in net unrealized appreciation (depreciation) on foreign currency (Statement of Operations includes both forward currency contracts and foreign currency transactions)

C. Purchases and Sales of Securities

During the six months ended June 30, 2012, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury obligations) aggregated $195,990,396 and $219,395,801, respectively. Purchases and sales of U.S. Treasury obligations aggregated $47,526,048 and $17,902,453, respectively.

D. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund 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 Fund.

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays a monthly management fee based on the Fund's average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

First $250 million of average daily net assets	.390%
Next $750 million of average daily net assets	.365%
Over $1 billion of average daily net assets	.340%

Accordingly, for the six months ended June 30, 2012, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate of 0.39% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays the Advisor an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the six months ended June 30, 2012, the Administration Fee was $68,803, of which $15,995 is unpaid.

Service Provider Fees. DWS Investments Service Company ("DISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2012, the amounts charged to the Fund by DISC aggregated $278, of which $80 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2012, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $12,132, of which $5,199 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

E. Investing in Emerging Markets

Investing in emerging markets may involve special risks and considerations not typically associated with investing in developed markets. These risks include revaluation of currencies, high rates of inflation or deflation, 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 or delayed settlements and may have prices more volatile or less easily assessed than those of comparable securities of issuers in developed markets.

F. Ownership of the Fund

Three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, owning 29%, 28% and 17%, respectively.

G. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $375 million revolving credit facility provided by a syndication of banks. The Fund may borrow 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 on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at June 30, 2012.

H. Acquisition of Assets

On April 30, 2012, the Fund acquired all of the net assets of DWS Core Fixed Income VIP pursuant to a plan of reorganization approved by the Board of Trustees on November 18, 2011. The acquisition was accomplished by a tax-free exchange of 8,800,059 Class A shares of DWS Core Fixed Income VIP for 13,990,523 Class A shares of the Fund outstanding on April 30, 2012. DWS Core Fixed Income VIP's net assets at that date, $78,348,206, including $2,794,520 of net unrealized appreciation, were combined with those of the Fund. The aggregate net assets of the Fund immediately before the acquisition were $109,635,421. The combined net assets of the Fund immediately following the acquisition were $187,983,627.

The financial statements reflect the operations of the Fund for the period prior to the acquisition and the combined portfolio for the period subsequent to the fund merger. Assuming the acquisition had been completed on January 1, 2012, the Fund's pro forma results of operations for the six months ended June 30, 2012, are as follows:

	Total Aggregated
Net investment income*	$ 2,681,472
Net gain (loss) on investments	$ 4,390,065
Net increase (decrease) in net assets resulting from operations	$ 7,071,537

* Net investment income includes $26,856 of pro forma eliminated expenses.

Because the combined investment portfolio has been managed as a single integrated Fund since the acquisition was completed, it is not practicable to separate the amounts of revenue and earnings of DWS Core Fixed Income VIP that have been included in the Fund's Statement of Operations since April 30, 2012.

Information About Your Fund's Expenses

(Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees and other Fund expenses. Examples of transaction costs include contract charges, 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (January 1, 2012 to June 30, 2012).

The tables illustrate your Fund's expenses in two ways:

- **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund'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% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund'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. 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, 2012

Actual Fund Return	Class A
Beginning Account Value 1/1/12	$1,000.00
Ending Account Value 6/30/12	$1,037.50
Expenses Paid per $1,000*	$ 3.09

Hypothetical 5% Fund Return	Class A
Beginning Account Value 1/1/12	$1,000.00
Ending Account Value 6/30/12	$1,021.83
Expenses Paid per $1,000*	$ 3.07

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 182 (the number of days in the most recent six-month period), then divided by 366.

Annualized Expense Ratio	Class A
DWS Variable Series I — DWS Bond VIP	.61%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

Proxy Voting

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 are available on our Web site — www.dws-investments.com (click on "proxy voting"at the bottom of the page) — 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) 728-3337.

Summary of Management Fee Evaluation by Independent Fee Consultant

September 26, 2011

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds (formerly the DWS Scudder Funds). My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2011, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007, 2008, 2009 and 2010.

Qualifications

For more than 35 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past ten years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds and have served in various leadership and financial oversight capacities with non-profit organizations.

Evaluation of Fees for each DWS Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 109 mutual fund portfolios in the DWS Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

- The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.
- The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

DeAM's Fees for Similar Services to Others

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Fund. These similar products included the other DWS Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

Costs and Profit Margins

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

Economies of Scale

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Fund compares with this industry observation, I reviewed:

The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.

Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.

How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

Quality of Service — Performance

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

Complex-Level Considerations

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

I reviewed DeAM's profitability analysis for all DWS Funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.

I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.

I considered how aggregated DWS Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.

I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

Findings

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Funds are reasonable.

Thomas H. Mack

Thomas H. Mack
President, Thomas H. Mack & Co., Inc.

Notes

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Chicago, IL 60606
(800) 621-1148

VS1bond-3 (R-028373-1 8/12)

DWS
INVESTMENTS
Deutsche Bank Group

JUNE 30, 2012

SEMIANNUAL REPORT

DWS INVESTMENTS VIT FUNDS

DWS Equity 500 Index VIP

DWS INVESTMENTS
Deutsche Bank Group

Contents

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus or summary prospectus, if available, call (800) 728-3337 or your financial representative. We advise you to consider the Fund's objectives, risks, charges and expenses carefully before investing. The summary prospectus and prospectus contain this and other important information about the Fund. Please read the prospectus carefully before you invest.

Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Various factors, including costs, cash flows and security selection, may cause the Fund's performance to differ from that of the index. The Fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

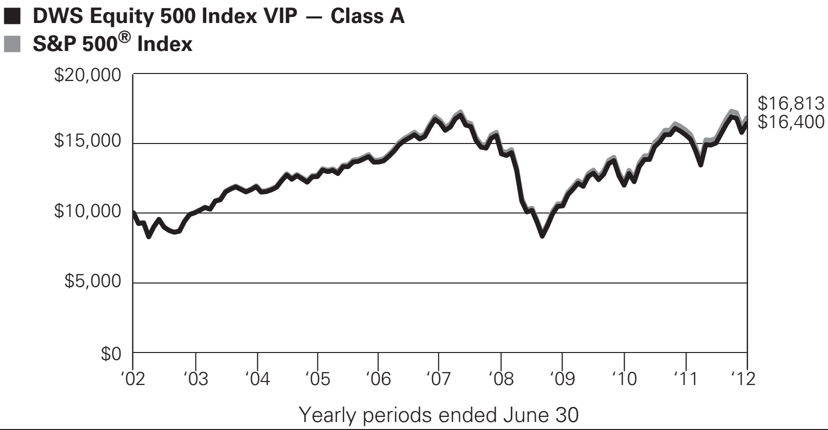
Performance Summary

June 30, 2012 (Unaudited)

Fund 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 contact your participating insurance company for the Fund's most recent month-end performance. Performance figures for Classes A, B and B2 differ because each class maintains a distinct expense structure. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2012 are 0.33%, 0.58% and 0.73% for Class A, Class B and Class B2 shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment



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 do not reflect any fees or expenses and it is not possible to invest directly into an index.

Comparative Results (as of June 30, 2012)

DWS Equity 500 Index VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,930	$10,516	$15,628	$9,988	$16,400
	Average annual total return	9.30%	5.16%	16.05%	–0.02%	5.07%
S&P 500 Index	Growth of $10,000	$10,949	$10,545	$15,770	$10,109	$16,813
	Average annual total return	9.49%	5.45%	16.40%	0.22%	5.33%

DWS Equity 500 Index VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,919	$10,489	$15,522	$9,864	$16,004
	Average annual total return	9.19%	4.89%	15.78%	–0.27%	4.82%
S&P 500 Index	Growth of $10,000	$10,949	$10,545	$15,770	$10,109	$16,813
	Average annual total return	9.49%	5.45%	16.40%	0.22%	5.33%

DWS Equity 500 Index VIP		6-Month‡	1-Year	3-Year	5-Year	Life of Class*
Class B2	Growth of $10,000	$10,910	$10,473	$15,455	$9,801	$12,177
	Average annual total return	9.10%	4.73%	15.62%	–0.40%	2.95%
S&P 500 Index	Growth of $10,000	$10,949	$10,545	$15,770	$10,109	$12,782
	Average annual total return	9.49%	5.45%	16.40%	0.22%	3.70%

The growth of $10,000 is cumulative.

‡ Total returns shown for periods less than one year are not annualized.

* The Fund commenced offering Class B2 shares on September 16, 2005. The performance shown for the index is for the time period of September 30, 2005 through June 30, 2012, which is based on the performance period of the life of the class.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/12**	**12/31/11**
Common Stocks	99%	99%
Cash Equivalents*	1%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/12**	**12/31/11**
Information Technology	20%	19%
Financials	14%	14%
Health Care	12%	12%
Consumer Staples	11%	11%
Consumer Discretionary	11%	11%
Energy	11%	12%
Industrials	11%	11%
Utilities	4%	4%
Materials	3%	3%
Telecommunication Services	3%	3%
	100%	100%

Ten Largest Equity Holdings (20.8% of Net Assets)	
1. Apple, Inc. Designs, manufactures and markets personal computers and related computing and mobile communication devices	**4.4%**
2. Exxon Mobil Corp. Explorer and producer of oil and gas	**3.2%**
3. Microsoft Corp. Develops, manufactures, licenses, sells and supports software products	**1.9%**
4. International Business Machines Corp. Manufacturer of computers and provider of information processing services	**1.8%**
5. General Electric Co. A diversified company provider of services to the technology, media and financial industries	**1.8%**
6. AT&T, Inc. An integrated telecommunications company	**1.7%**
7. Chevron Corp. Operator of petroleum exploration, delivery and refining facilities	**1.7%**
8. Johnson & Johnson Provider of health care products	**1.5%**
9. Wells Fargo & Co. A diversified financial company	**1.4%**
10. Coca-Cola Co. Bottler and distributor of soft drinks	**1.4%**

* In order to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the market, the Fund invests in futures contracts.

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 5.

Following the Fund'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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management

Brent Reeder

Portolio Manager and Senior Vice President, Northern Trust Investments, Inc., Subadvisor to the Fund

	Shares	Value ($)
Common Stocks 99.2%		
Consumer Discretionary 10.8%		
Auto Components 0.2%		
BorgWarner, Inc.* (a)	6,836	448,373
Goodyear Tire & Rubber Co.*	14,024	165,624
Johnson Controls, Inc.	39,697	1,100,004
		1,714,001
Automobiles 0.4%		
Ford Motor Co. (a)	224,279	2,150,835
Harley-Davidson, Inc.	13,775	629,931
		2,780,766
Distributors 0.1%		
Genuine Parts Co.	9,299	**560,265**
Diversified Consumer Services 0.1%		
Apollo Group, Inc. "A"*	6,263	226,658
DeVry, Inc.	3,455	107,001
H&R Block, Inc.	17,896	285,978
		619,637
Hotels, Restaurants & Leisure 1.9%		
Carnival Corp.	26,720	915,694
Chipotle Mexican Grill, Inc.*	1,876	712,786
Darden Restaurants, Inc. (a)	7,631	386,358
International Game Technology	17,850	281,138
Marriott International, Inc. "A" (a)	15,732	616,694
McDonald's Corp. (a)	59,555	5,272,404
Starbucks Corp.	44,462	2,370,714
Starwood Hotels & Resorts Worldwide, Inc.	11,547	612,453
Wyndham Worldwide Corp. (a)	8,629	455,093
Wynn Resorts Ltd.	4,631	480,327
Yum! Brands, Inc. (a)	26,887	1,732,061
		13,835,722
Household Durables 0.2%		
D.R. Horton, Inc.	16,195	297,664
Harman International Industries, Inc.	4,023	159,311
Leggett & Platt, Inc. (a)	8,242	174,153
Lennar Corp. "A" (a)	9,390	290,245
Newell Rubbermaid, Inc.	17,127	310,684
Pulte Group, Inc.* (a)	19,089	204,252
Whirlpool Corp.	4,487	274,425
		1,710,734
Internet & Catalog Retail 1.0%		
Amazon.com, Inc.*	21,132	4,825,492
Expedia, Inc. (a)	5,171	248,570
Netflix, Inc.* (a)	3,128	214,174
Priceline.com, Inc.*	2,916	1,937,741
TripAdvisor, Inc.*	5,593	249,951
		7,475,928
Leisure Equipment & Products 0.1%		
Hasbro, Inc.	6,824	231,129
Mattel, Inc. (a)	19,798	642,247
		873,376
Media 3.4%		
Cablevision Systems Corp. (New York Group) "A"	13,294	176,677
CBS Corp. "B"	37,961	1,244,362
Comcast Corp. "A"	157,747	5,043,172
DIRECTV "A"*	38,418	1,875,567
Discovery Communications, Inc. "A"*	15,115	816,210
Gannett Co., Inc.	13,694	201,713
Interpublic Group of Companies, Inc.	25,045	271,738
McGraw-Hill Companies, Inc.	16,547	744,615
News Corp. "A"	123,625	2,755,601
Omnicom Group, Inc.	15,929	774,149
Scripps Networks Interactive "A"	5,391	306,532
Time Warner Cable, Inc.	18,361	1,507,438
Time Warner, Inc. (a)	56,120	2,160,620
Viacom, Inc. "B"	30,981	1,456,727
Walt Disney Co.	104,854	5,085,419
Washington Post Co. "B" (a)	267	99,810
		24,520,350
Multiline Retail 0.8%		
Big Lots, Inc.*	3,562	145,294
Dollar Tree, Inc.*	13,584	730,819
Family Dollar Stores, Inc.	6,888	457,914
J.C. Penney Co., Inc. (a)	8,443	196,806
Kohl's Corp.	14,054	639,317
Macy's, Inc.	24,441	839,548
Nordstrom, Inc.	9,437	468,925
Sears Holdings Corp.* (a)	2,164	129,191
Target Corp.	38,670	2,250,207
		5,858,021
Specialty Retail 2.0%		
Abercrombie & Fitch Co. "A"	5,169	176,470
AutoNation, Inc.* (a)	2,211	78,004
AutoZone, Inc.*	1,581	580,496
Bed Bath & Beyond, Inc.*	13,514	835,165
Best Buy Co., Inc.	16,204	339,636
CarMax, Inc.*	13,717	355,819
GameStop Corp. "A" (a)	8,132	149,304
Home Depot, Inc. (a)	89,626	4,749,282
Limited Brands, Inc.	14,406	612,687
Lowe's Companies, Inc.	68,961	1,961,251
O'Reilly Automotive, Inc.*	7,309	612,275
Ross Stores, Inc.	13,241	827,165
Staples, Inc.	40,108	523,409
The Gap, Inc.	19,771	540,935
Tiffany & Co.	7,370	390,241
TJX Companies, Inc.	43,422	1,864,106
Urban Outfitters, Inc.*	6,480	178,783
		14,775,028
Textiles, Apparel & Luxury Goods 0.6%		
Coach, Inc.	16,822	983,751
Fossil, Inc.*	3,095	236,891
NIKE, Inc. "B"	21,455	1,883,320
Ralph Lauren Corp.	3,762	526,906
VF Corp.	5,041	672,721
		4,303,589
Consumer Staples 11.2%		
Beverages 2.8%		
Beam, Inc.	9,292	580,657
Brown-Forman Corp. "B"	5,755	557,372
Coca-Cola Co. (a)	132,142	10,332,183
Coca-Cola Enterprises, Inc.	17,699	496,280
Constellation Brands, Inc. "A"*	9,158	247,816

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

	Shares	Value ($)
Dr. Pepper Snapple Group, Inc.	12,547	548,931
Molson Coors Brewing Co. "B"	9,058	376,903
Monster Beverage Corp.*	8,992	640,231
PepsiCo, Inc.	91,608	6,473,021
		20,253,394
Food & Staples Retailing 2.4%		
Costco Wholesale Corp.	25,439	2,416,705
CVS Caremark Corp.	75,111	3,509,937
Kroger Co.	32,977	764,737
Safeway, Inc. (a)	14,338	260,235
Sysco Corp.	34,153	1,018,101
Wal-Mart Stores, Inc. (a)	101,105	7,049,040
Walgreen Co.	50,462	1,492,666
Whole Foods Market, Inc.	9,492	904,777
		17,416,198
Food Products 1.7%		
Archer-Daniels-Midland Co.	38,505	1,136,668
Campbell Soup Co. (a)	10,427	348,053
ConAgra Foods, Inc.	24,172	626,780
Dean Foods Co.*	10,345	176,175
General Mills, Inc.	37,747	1,454,769
H.J. Heinz Co.	18,564	1,009,510
Hormel Foods Corp.	7,999	243,330
Kellogg Co.	14,636	721,994
Kraft Foods, Inc. "A"	104,174	4,023,200
McCormick & Co., Inc.	7,927	480,773
Mead Johnson Nutrition Co.	11,927	960,243
The Hershey Co.	9,002	648,414
The JM Smucker Co.	6,594	497,979
Tyson Foods, Inc. "A"	16,850	317,285
		12,645,173
Household Products 2.1%		
Clorox Co.	7,646	554,029
Colgate-Palmolive Co. (a)	28,017	2,916,570
Kimberly-Clark Corp.	23,030	1,929,223
Procter & Gamble Co.	160,497	9,830,441
		15,230,263
Personal Products 0.2%		
Avon Products, Inc.	25,018	405,542
Estee Lauder Companies, Inc. "A"	13,260	717,631
		1,123,173
Tobacco 2.0%		
Altria Group, Inc.	119,103	4,115,009
Lorillard, Inc. (a)	7,692	1,014,959
Philip Morris International, Inc.	99,930	8,719,892
Reynolds American, Inc. (a)	19,379	869,536
		14,719,396
Energy 10.7%		
Energy Equipment & Services 1.6%		
Baker Hughes, Inc.	25,454	1,046,160
Cameron International Corp.*	14,354	613,059
Diamond Offshore Drilling, Inc. (a)	4,078	241,132
FMC Technologies, Inc.*	14,154	555,262
Halliburton Co.	53,987	1,532,691
Helmerich & Payne, Inc.	6,361	276,576
Nabors Industries Ltd.* (a)	16,991	244,670
National Oilwell Varco, Inc.	25,173	1,622,148
Noble Corp.*	14,713	478,614
Rowan Companies PLC "A"*	7,433	240,309
Schlumberger Ltd.	78,000	5,062,980
		11,913,601

	Shares	Value ($)
Oil, Gas & Consumable Fuels 9.1%		
Alpha Natural Resources, Inc.*	12,667	110,329
Anadarko Petroleum Corp.	29,167	1,930,855
Apache Corp.	23,152	2,034,829
Cabot Oil & Gas Corp.	12,046	474,612
Chesapeake Energy Corp. (a)	38,661	719,095
Chevron Corp.	115,660	12,202,130
ConocoPhillips	74,372	4,155,907
CONSOL Energy, Inc.	13,112	396,507
Denbury Resources, Inc.*	23,134	349,555
Devon Energy Corp. (a)	23,644	1,371,115
EOG Resources, Inc.	15,743	1,418,602
EQT Corp.	8,604	461,432
Exxon Mobil Corp.	274,207	23,463,893
Hess Corp.	17,657	767,197
Kinder Morgan, Inc.	29,545	951,940
Marathon Oil Corp.	41,036	1,049,290
Marathon Petroleum Corp.	20,201	907,429
Murphy Oil Corp.	11,255	566,014
Newfield Exploration Co.*	7,974	233,718
Noble Energy, Inc.	10,345	877,463
Occidental Petroleum Corp.	47,444	4,069,272
Peabody Energy Corp.	15,655	383,861
Phillips 66*	36,790	1,222,900
Pioneer Natural Resources Co.	7,168	632,289
QEP Resources, Inc. (a)	10,652	319,240
Range Resources Corp.	9,380	580,341
Southwestern Energy Co.*	20,303	648,275
Spectra Energy Corp.	38,082	1,106,663
Sunoco, Inc.	6,240	296,400
Tesoro Corp.*	8,509	212,385
Valero Energy Corp.	32,813	792,434
Williams Companies, Inc.	36,624	1,055,504
WPX Energy, Inc.*	12,040	194,807
		65,956,283
Financials 14.3%		
Capital Markets 1.8%		
Ameriprise Financial, Inc.	12,928	675,617
Bank of New York Mellon Corp.	70,407	1,545,434
BlackRock, Inc.	7,483	1,270,763
Charles Schwab Corp. (a)	63,095	815,818
E*TRADE Financial Corp.*	13,785	110,831
Federated Investors, Inc. "B" (a)	5,017	109,621
Franklin Resources, Inc.	8,299	921,106
Invesco Ltd.	26,231	592,821
Legg Mason, Inc.	7,058	186,120
Morgan Stanley	89,071	1,299,546
Northern Trust Corp.	14,106	649,158
State Street Corp.	28,506	1,272,508
T. Rowe Price Group, Inc.	15,042	947,044
The Goldman Sachs Group, Inc.	28,939	2,774,093
		13,170,480
Commercial Banks 2.9%		
BB&T Corp.	40,699	1,255,564
Comerica, Inc.	11,550	354,700
Fifth Third Bancorp.	53,794	720,840
First Horizon National Corp.	14,787	127,907
Huntington Bancshares, Inc.	51,047	326,701
KeyCorp	56,352	436,164
M&T Bank Corp. (a)	7,453	615,394
PNC Financial Services Group, Inc.	30,880	1,887,077
Regions Financial Corp.	84,464	570,132

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

	Shares	Value ($)
SunTrust Banks, Inc.	31,894	772,792
U.S. Bancorp. (a)	110,780	3,562,685
Wells Fargo & Co.	311,304	10,410,006
Zions Bancorp. (a)	10,592	205,697
		21,245,659
Consumer Finance 0.9%		
American Express Co.	58,711	3,417,567
Capital One Financial Corp.	34,023	1,859,697
Discover Financial Services	30,941	1,069,940
SLM Corp.	28,625	449,699
		6,796,903
Diversified Financial Services 2.9%		
Bank of America Corp.	631,563	5,166,185
Citigroup, Inc.	172,054	4,716,000
CME Group, Inc. "A"	3,859	1,034,637
IntercontinentalExchange, Inc.*	4,231	575,331
JPMorgan Chase & Co.	223,322	7,979,295
Leucadia National Corp.	11,812	251,241
Moody's Corp.	11,528	421,349
NYSE Euronext	15,101	386,284
The NASDAQ OMX Group, Inc.	7,351	166,647
		20,696,969
Insurance 3.5%		
ACE Ltd.	20,002	1,482,748
Aflac, Inc.	27,690	1,179,317
Allstate Corp.	28,561	1,002,206
American International Group, Inc.*	37,404	1,200,294
Aon PLC	19,045	890,925
Assurant, Inc.	5,222	181,934
Berkshire Hathaway, Inc. "B"*	103,096	8,590,990
Chubb Corp.	15,864	1,155,217
Cincinnati Financial Corp.	9,781	372,363
Genworth Financial, Inc. "A"*	28,423	160,874
Hartford Financial Services Group, Inc.	25,869	456,070
Lincoln National Corp.	17,117	374,349
Loews Corp.	18,000	736,380
Marsh & McLennan Companies, Inc.	31,799	1,024,882
MetLife, Inc.	62,044	1,914,057
Principal Financial Group, Inc.	17,912	469,832
Progressive Corp.	35,419	737,778
Prudential Financial, Inc.	27,500	1,331,825
The Travelers Companies, Inc.	22,692	1,448,657
Torchmark Corp. (a)	5,825	294,454
Unum Group	16,840	322,149
XL Group PLC	17,885	376,300
		25,703,601
Real Estate Investment Trusts 2.1%		
American Tower Corp. (REIT)	23,088	1,614,082
Apartment Investment & Management Co. "A" (REIT)	8,005	216,375
AvalonBay Communities, Inc. (REIT) (a)	5,539	783,658
Boston Properties, Inc. (REIT)	8,915	966,119
Equity Residential (REIT)	17,549	1,094,356
HCP, Inc. (REIT)	24,736	1,092,094
Health Care REIT, Inc. (REIT)	12,429	724,611
Host Hotels & Resorts, Inc. (REIT)	42,629	674,391
Kimco Realty Corp. (REIT)	23,376	444,845
Plum Creek Timber Co., Inc. (REIT) (a)	9,225	366,232
Prologis, Inc. (REIT)	26,903	893,987

	Shares	Value ($)
Public Storage (REIT)	8,334	1,203,513
Simon Property Group, Inc. (REIT)	17,834	2,776,040
Ventas, Inc. (REIT)	16,833	1,062,499
Vornado Realty Trust (REIT)	10,863	912,275
Weyerhaeuser Co. (REIT) (a)	31,381	701,679
		15,526,756
Real Estate Management & Development 0.1%		
CBRE Group, Inc.*	19,077	**312,100**
Thrifts & Mortgage Finance 0.1%		
Hudson City Bancorp., Inc.	30,331	193,208
People's United Financial, Inc.	21,302	247,316
		440,524
Health Care 11.9%		
Biotechnology 1.4%		
Alexion Pharmaceuticals, Inc.*	11,282	1,120,303
Amgen, Inc.	45,610	3,331,354
Biogen Idec, Inc.*	14,116	2,038,068
Celgene Corp.*	25,675	1,647,308
Gilead Sciences, Inc.*	44,311	2,272,268
		10,409,301
Health Care Equipment & Supplies 1.8%		
Baxter International, Inc.	32,319	1,717,755
Becton, Dickinson & Co. (a)	11,922	891,170
Boston Scientific Corp.*	85,108	482,562
C.R. Bard, Inc.	4,959	532,795
CareFusion Corp.*	13,314	341,904
Covidien PLC	28,274	1,512,659
DENTSPLY International, Inc.	8,473	320,364
Edwards Lifesciences Corp.*	6,719	694,073
Intuitive Surgical, Inc.*	2,338	1,294,761
Medtronic, Inc.	60,873	2,357,611
St. Jude Medical, Inc.	18,141	724,007
Stryker Corp.	18,953	1,044,310
Varian Medical Systems, Inc.*	6,516	395,977
Zimmer Holdings, Inc.	10,189	655,764
		12,965,712
Health Care Providers & Services 2.0%		
Aetna, Inc.	20,384	790,288
AmerisourceBergen Corp.	14,528	571,677
Cardinal Health, Inc.	20,212	848,904
CIGNA Corp.	16,724	735,856
Coventry Health Care, Inc.	8,285	263,380
DaVita, Inc.*	5,561	546,146
Express Scripts Holding Co.*	47,284	2,639,866
Humana, Inc.	9,599	743,346
Laboratory Corp. of America Holdings*	5,636	521,950
McKesson Corp.	13,839	1,297,406
Patterson Companies, Inc.	5,408	186,414
Quest Diagnostics, Inc.	9,201	551,140
Tenet Healthcare Corp.*	23,058	120,824
UnitedHealth Group, Inc.	60,787	3,556,039
WellPoint, Inc.	19,296	1,230,892
		14,604,128
Health Care Technology 0.1%		
Cerner Corp.*	8,503	**702,858**
Life Sciences Tools & Services 0.4%		
Agilent Technologies, Inc.	20,360	798,926
Life Technologies Corp.*	10,447	470,010
PerkinElmer, Inc.	6,370	164,346
Thermo Fisher Scientific, Inc.	21,405	1,111,134

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

	Shares	Value ($)
Waters Corp.*	5,244	416,741
		2,961,157
Pharmaceuticals 6.2%		
Abbott Laboratories	92,326	5,952,257
Allergan, Inc.	18,057	1,671,536
Bristol-Myers Squibb Co.	98,767	3,550,674
Eli Lilly & Co.	59,770	2,564,731
Forest Laboratories, Inc.*	15,827	553,787
Hospira, Inc.*	9,972	348,821
Johnson & Johnson (a)	160,975	10,875,471
Merck & Co., Inc.	178,090	7,435,258
Mylan, Inc.*	25,271	540,041
Perrigo Co. (a)	5,436	641,067
Pfizer, Inc.	438,893	10,094,539
Watson Pharmaceuticals, Inc.*	7,328	542,199
		44,770,381
Industrials 10.4%		
Aerospace & Defense 2.5%		
Boeing Co.	43,941	3,264,816
General Dynamics Corp.	21,182	1,397,165
Goodrich Corp.	7,355	933,349
Honeywell International, Inc.	45,783	2,556,523
L-3 Communications Holdings, Inc.	5,707	422,375
Lockheed Martin Corp.	15,581	1,356,793
Northrop Grumman Corp.	14,746	940,647
Precision Castparts Corp.	8,491	1,396,685
Raytheon Co.	19,381	1,096,771
Rockwell Collins, Inc.	8,386	413,849
Textron, Inc.	16,506	410,504
United Technologies Corp.	53,518	4,042,215
		18,231,692
Air Freight & Logistics 1.0%		
C.H. Robinson Worldwide, Inc.	9,642	564,346
Expeditors International of Washington, Inc.	12,259	475,036
FedEx Corp. (a)	18,392	1,684,891
United Parcel Service, Inc. "B" (a)	56,078	4,416,704
		7,140,977
Airlines 0.1%		
Southwest Airlines Co.	45,450	**419,049**
Building Products 0.0%		
Masco Corp.	20,625	**286,069**
Commercial Services & Supplies 0.4%		
Avery Dennison Corp.	6,075	166,091
Cintas Corp.	6,455	249,228
Iron Mountain, Inc.	10,217	336,752
Pitney Bowes, Inc. (a)	11,853	177,439
R.R. Donnelley & Sons Co. (a)	10,163	119,619
Republic Services, Inc.	18,669	493,982
Stericycle, Inc.*	4,914	450,466
Waste Management, Inc. (a)	27,323	912,588
		2,906,165
Construction & Engineering 0.2%		
Fluor Corp.	10,019	494,338
Jacobs Engineering Group, Inc.*	7,504	284,101
Quanta Services, Inc.*	12,661	304,750
		1,083,189
Electrical Equipment 0.5%		
Cooper Industries PLC	9,234	629,574
Emerson Electric Co. (a)	42,950	2,000,611

	Shares	Value ($)
Rockwell Automation, Inc.	8,382	553,715
Roper Industries, Inc.	5,770	568,807
		3,752,707
Industrial Conglomerates 2.7%		
3M Co.	40,593	3,637,133
Danaher Corp. (a)	33,864	1,763,637
General Electric Co.	620,936	12,940,306
Tyco International Ltd.	26,958	1,424,730
		19,765,806
Machinery 1.9%		
Caterpillar, Inc.	38,331	3,254,685
Cummins, Inc.	11,228	1,088,105
Deere & Co.	23,244	1,879,742
Dover Corp.	10,860	582,205
Eaton Corp. (a)	20,098	796,484
Flowserve Corp.	3,122	358,250
Illinois Tool Works, Inc.	27,916	1,476,477
Ingersoll-Rand PLC	17,340	731,401
Joy Global, Inc.	6,333	359,271
PACCAR, Inc.	21,029	824,127
Pall Corp.	6,631	363,445
Parker Hannifin Corp.	8,826	678,543
Snap-on, Inc.	3,303	205,612
Stanley Black & Decker, Inc.	10,203	656,665
Xylem, Inc.	11,041	277,902
		13,532,914
Professional Services 0.1%		
Dun & Bradstreet Corp.	2,834	201,696
Equifax, Inc.	7,191	335,100
Robert Half International, Inc.	8,358	238,788
		775,584
Road & Rail 0.8%		
CSX Corp.	60,656	1,356,268
Norfolk Southern Corp.	19,032	1,365,927
Ryder System, Inc.	2,903	104,537
Union Pacific Corp. (a)	27,917	3,330,777
		6,157,509
Trading Companies & Distributors 0.2%		
Fastenal Co. (a)	17,274	696,315
W.W. Grainger, Inc. (a)	3,557	680,241
		1,376,556
Information Technology 19.6%		
Communications Equipment 1.8%		
Cisco Systems, Inc.	313,935	5,390,264
F5 Networks, Inc.*	4,680	465,941
Harris Corp.	6,473	270,895
JDS Uniphase Corp.*	14,116	155,276
Juniper Networks, Inc.*	31,172	508,415
Motorola Solutions, Inc.	17,226	828,743
QUALCOMM, Inc.	100,471	5,594,225
		13,213,759
Computers & Peripherals 5.6%		
Apple, Inc.*	54,798	32,002,032
Dell, Inc.* (a)	87,162	1,091,268
EMC Corp.* (a)	123,116	3,155,463
Hewlett-Packard Co.	115,645	2,325,621
Lexmark International, Inc. "A"	4,234	112,540
NetApp, Inc.*	21,080	670,766
SanDisk Corp.*	14,435	526,589
Seagate Technology PLC	22,178	548,462

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

	Shares	Value ($)
Western Digital Corp.*	13,549	412,973
		40,845,714
Electronic Equipment, Instruments & Components 0.4%		
Amphenol Corp. "A"	9,420	517,346
Corning, Inc.	89,049	1,151,404
FLIR Systems, Inc.	9,357	182,462
Jabil Circuit, Inc.	10,195	207,264
Molex, Inc. (a)	7,976	190,945
TE Connectivity Ltd.	24,870	793,602
		3,043,023
Internet Software & Services 1.8%		
Akamai Technologies, Inc.*	10,506	333,566
eBay, Inc.*	67,515	2,836,305
Google, Inc. "A"*	14,906	8,646,523
VeriSign, Inc.*	9,260	403,458
Yahoo!, Inc.*	70,824	1,121,144
		13,340,996
IT Services 3.9%		
Accenture PLC "A"	37,840	2,273,806
Automatic Data Processing, Inc.	28,640	1,594,102
Cognizant Technology Solutions Corp. "A"*	17,747	1,064,820
Computer Sciences Corp.	9,209	228,567
Fidelity National Information Services, Inc.	14,219	484,584
Fiserv, Inc.*	8,143	588,087
International Business Machines Corp.	67,597	13,220,621
MasterCard, Inc. "A"	6,215	2,673,134
Paychex, Inc. (a)	18,716	587,870
SAIC, Inc.	16,904	204,877
Teradata Corp.*	9,843	708,794
Total System Services, Inc.	9,315	222,908
Visa, Inc. "A" (a)	29,100	3,597,633
Western Union Co.	35,499	597,803
		28,047,606
Office Electronics 0.1%		
Xerox Corp.	79,196	**623,273**
Semiconductors & Semiconductor Equipment 2.3%		
Advanced Micro Devices, Inc.* (a)	32,848	188,219
Altera Corp.	18,957	641,505
Analog Devices, Inc. (a)	17,431	656,626
Applied Materials, Inc.	75,642	866,857
Broadcom Corp. "A"*	29,313	990,779
First Solar, Inc.* (a)	3,515	52,936
Intel Corp.	294,883	7,858,632
KLA-Tencor Corp.	9,650	475,263
Lam Research Corp.* (a)	11,662	440,124
Linear Technology Corp.	13,663	428,062
LSI Corp.*	32,065	204,254
Microchip Technology, Inc. (a)	11,356	375,657
Micron Technology, Inc.* (a)	56,727	357,947
NVIDIA Corp.*	36,298	501,638
Teradyne, Inc.*	11,515	161,901
Texas Instruments, Inc. (a)	67,042	1,923,435
Xilinx, Inc.	15,683	526,478
		16,650,313
Software 3.7%		
Adobe Systems, Inc.*	28,971	937,791
Autodesk, Inc.*	13,788	482,442
BMC Software, Inc.*	9,430	402,472
CA, Inc.	21,041	570,001
Citrix Systems, Inc.*	11,050	927,537
Electronic Arts, Inc.*	18,710	231,069
Intuit, Inc.	17,214	1,021,651
Microsoft Corp.	438,132	13,402,458
Oracle Corp.	227,399	6,753,750
Red Hat, Inc.*	11,278	636,981
Salesforce.com, Inc.* (a)	8,121	1,122,810
Symantec Corp.*	42,441	620,063
		27,109,025

Materials 3.4%

	Shares	Value ($)
Chemicals 2.3%		
Air Products & Chemicals, Inc.	12,306	993,463
Airgas, Inc.	4,008	336,712
CF Industries Holdings, Inc.	3,828	741,637
Dow Chemical Co. (a)	70,244	2,212,686
E.I. du Pont de Nemours & Co. (a)	55,201	2,791,515
Eastman Chemical Co.	8,012	403,564
Ecolab, Inc. (a)	17,308	1,186,117
FMC Corp.	8,146	435,648
International Flavors & Fragrances, Inc.	4,737	259,588
Monsanto Co.	31,332	2,593,663
PPG Industries, Inc.	8,860	940,223
Praxair, Inc.	17,460	1,898,426
Sigma-Aldrich Corp.	7,030	519,728
The Mosaic Co.	17,439	954,960
The Sherwin-Williams Co.	4,992	660,691
		16,928,621
Construction Materials 0.1%		
Vulcan Materials Co.	7,653	**303,901**
Containers & Packaging 0.1%		
Ball Corp.	9,259	380,082
Bemis Co., Inc.	6,058	189,857
Owens-Illinois, Inc.*	9,576	183,572
Sealed Air Corp.	11,500	177,560
		931,071
Metals & Mining 0.7%		
Alcoa, Inc.	62,052	542,955
Allegheny Technologies, Inc.	6,196	197,590
Cliffs Natural Resources, Inc. (a)	8,167	402,551
Freeport-McMoRan Copper & Gold, Inc.	55,544	1,892,384
Newmont Mining Corp.	29,000	1,406,790
Nucor Corp.	18,605	705,130
Titanium Metals Corp.	4,728	53,474
United States Steel Corp. (a)	8,324	171,474
		5,372,348
Paper & Forest Products 0.2%		
International Paper Co.	25,587	739,720
MeadWestvaco Corp.	9,981	286,954
		1,026,674

Telecommunication Services 3.2%

	Shares	Value ($)
Diversified Telecommunication Services 3.0%		
AT&T, Inc. (a)	343,572	12,251,778
CenturyLink, Inc. (a)	36,186	1,428,985
Frontier Communications Corp. (a)	59,604	228,283
Verizon Communications, Inc. (a)	166,511	7,399,749
Windstream Corp. (a)	34,276	331,106
		21,639,901

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

	Shares	Value ($)
Wireless Telecommunication Services 0.2%		
Crown Castle International Corp.*	15,140	888,112
MetroPCS Communications, Inc.*	16,760	101,398
Sprint Nextel Corp.*	178,957	583,400
		1,572,910

Utilities 3.7%

	Shares	Value ($)
Electric Utilities 2.1%		
American Electric Power Co., Inc.	28,245	1,126,975
Duke Energy Corp. (a)	78,476	1,809,657
Edison International	19,074	881,219
Entergy Corp.	10,410	706,735
Exelon Corp.	49,853	1,875,470
FirstEnergy Corp.	24,755	1,217,698
NextEra Energy, Inc.	24,355	1,675,867
Northeast Utilities	18,658	724,117
Pepco Holdings, Inc. (a)	13,324	260,751
Pinnacle West Capital Corp.	6,415	331,912
PPL Corp.	33,907	942,954
Progress Energy, Inc.	17,217	1,035,947
Southern Co.	50,770	2,350,651
		14,939,953
Gas Utilities 0.1%		
AGL Resources, Inc.	7,028	272,335
ONEOK, Inc.	12,104	512,120
		784,455
Independent Power Producers & Energy Traders 0.1%		
AES Corp.*	37,271	478,187
NRG Energy, Inc.*	13,515	234,620
		712,807
Multi-Utilities 1.4%		
Ameren Corp.	13,973	468,654
CenterPoint Energy, Inc.	24,701	510,570
CMS Energy Corp.	15,030	353,205
Consolidated Edison, Inc.	17,110	1,064,071
Dominion Resources, Inc.	33,748	1,822,392
DTE Energy Co.	9,878	586,062
Integrys Energy Group, Inc.	4,595	261,318
NiSource, Inc. (a)	16,777	415,231
PG&E Corp.	24,952	1,129,577
Public Service Enterprise Group, Inc.	29,641	963,332
SCANA Corp. (a)	6,768	323,781
Sempra Energy	14,068	969,004
TECO Energy, Inc. (a)	12,560	226,833
Wisconsin Energy Corp.	13,512	534,670
Xcel Energy, Inc.	28,443	808,066
		10,436,766
Total Common Stocks (Cost $605,839,644)		**721,542,760**

	Principal Amount ($)	Value ($)

Government & Agency Obligation 0.2%

U.S. Treasury Obligation

	Principal Amount ($)	Value ($)
U.S. Treasury Bill, 0.135%**, 11/1/2012 (b) (Cost $1,204,444)	1,205,000	**1,204,562**

Securities Lending Collateral 14.8%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.24% (c) (d) (Cost $107,822,808)	107,822,808	**107,822,808**

Cash Equivalents 0.6%

	Shares	Value ($)
Central Cash Management Fund, 0.14% (c) (Cost $4,017,000)	4,017,000	**4,017,000**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $718,883,896)†	114.8	**834,587,130**
Other Assets and Liabilities, Net	(14.8)	**(107,835,859)**
Net Assets	100.0	**726,751,271**

* Non-income producing security.

** Annualized yield at time of purchase; not a coupon rate.

† The cost for federal income tax purposes was $747,246,076. At June 30, 2012, net unrealized appreciation for all securities based on tax cost was $87,341,054. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $195,208,613 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $107,867,559.

(a) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2012 amounted to $107,401,298, which is 14.8% of net assets.

(b) At June 30, 2012, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(c) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(d) Represents collateral held in connection with securities lending. Income earned by the Fund is net of borrower rebates.

REIT: Real Estate Investment Trust

At June 30, 2012, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
S&P 500 Index	USD	9/20/2012	17	5,764,700	**279,655**

Currency Abbreviation	
USD	United States Dollar

For information on the Fund's policy and additional disclosures regarding futures contracts, please refer to Note B in the accompanying Notes to Financial Statements.

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

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2012 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stock (e)	$721,542,760	$ —	$ —	$721,542,760
Government & Agency Obligation	—	1,204,562	—	1,204,562
Short-Term Investments (e)	111,839,808	—	—	111,839,808
Derivatives (f)	279,655	—	—	279,655
Total	**$833,662,223**	**$ 1,204,562**	**$ —**	**$834,866,785**

There have been no transfers in and out of Level 1 and Level 2 fair value measurements during the period ended June 30, 2012.

(e) See Investment Portfolio for additional detailed categorizations.

(f) Derivatives include unrealized appreciation (depreciation) on open futures contracts.

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

Statement of Assets and Liabilities

as of June 30, 2012 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $607,044,088) — including $107,401,298 of securities loaned	$	722,747,322
Investment in Daily Assets Fund Institutional (cost $107,822,808)*		107,822,808
Investment in Central Cash Management Fund (cost $4,017,000)		4,017,000
Total investments in securities, at value (cost $718,883,896)		834,587,130
Cash		111,682
Receivable for investments sold		640,006
Receivable for Fund shares sold		1,362
Dividends receivable		833,481
Interest receivable		12,248
Receivable for variation margin on futures contracts		162,552
Other assets		8,481
Total assets		836,356,942
Liabilities		
Payable upon return of securities loaned		107,822,808
Payable for Fund investments purchased		1,165,295
Payable for Fund shares redeemed		362,886
Accrued management fee		115,864
Accrued Trustees' fees		401
Other accrued expenses and payables		138,417
Total liabilities		109,605,671
Net assets, at value	**$**	**726,751,271**
Net Assets Consist of		
Undistributed net investment income		6,353,809
Net unrealized appreciation (depreciation) on:		
Investments		115,703,234
Futures		279,655
Accumulated net realized gain (loss)		(22,931,251)
Paid-in capital		627,345,824
Net assets, at value	**$**	**726,751,271**
Class A		
Net Asset Value, offering and redemption price per share ($661,751,339 ÷ 46,657,786 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**14.18**
Class B		
Net Asset Value, offering and redemption price per share ($46,746,722 ÷ 3,293,560 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**14.19**
Class B2		
Net Asset Value, offering and redemption price per share ($18,253,210 ÷ 1,286,168 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**14.19**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2012 (Unaudited)

Investment Income		
Income:		
Dividends	$	7,638,072
Interest		355
Income distributions — Central Cash Management Fund		4,975
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		84,203
Total income		7,727,605
Expenses:		
Management fee		730,988
Administration fee		364,832
Services to shareholders		3,874
Distribution service fees (Class B and Class B2)		81,726
Record keeping fee (Class B2)		13,856
Custodian fee		13,705
Professional fees		38,633
Reports to shareholders		56,029
Trustees' fees and expenses		16,005
Other		20,799
Total expenses		1,340,447
Net investment income (loss)		**6,387,158**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		7,470,149
Futures		846,200
		8,316,349
Change in net unrealized appreciation (depreciation) on:		
Investments		49,341,202
Futures		293,468
		49,634,670
Net gain (loss)		**57,951,019**
Net increase (decrease) in net assets resulting from operations	**$**	**64,338,177**

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, 2012 (Unaudited)	Year Ended December 31, 2011
Operations:		
Net investment income (loss)	$ 6,387,158	$ 12,872,005
Net realized gain (loss)	8,316,349	9,259,041
Change in net unrealized appreciation (depreciation)	49,634,670	(9,910,340)
Net increase (decrease) in net assets resulting from operations	64,338,177	12,220,706
Distributions to shareholders from:		
Net investment income:		
Class A	(11,798,114)	(11,499,201)
Class B	(708,034)	(693,566)
Class B2	(250,108)	(248,318)
Total distributions	(12,756,256)	(12,441,085)
Fund share transactions:		
Class A		
Proceeds from shares sold	19,677,681	56,585,657
Reinvestment of distributions	11,798,114	11,499,201
Payments for shares redeemed	(48,730,327)	(134,765,778)
Net increase (decrease) in net assets from Class A share transactions	(17,254,532)	(66,680,920)
Class B		
Proceeds from shares sold	2,326,276	4,009,341
Reinvestment of distributions	708,034	693,566
Payments for shares redeemed	(4,875,518)	(13,195,180)
Net increase (decrease) in net assets from Class B share transactions	(1,841,208)	(8,492,273)
Class B2		
Proceeds from shares sold	226,715	179,271
Reinvestment of distributions	250,108	248,318
Cost of shares redeemed	(1,459,033)	(2,894,605)
Net increase (decrease) in net assets from Class B2 share transactions	(982,210)	(2,467,016)
Increase (decrease) in net assets	31,503,971	(77,860,588)
Net assets at beginning of period	695,247,300	773,107,888
Net assets at end of period (including undistributed net investment income of $6,353,809 and $12,722,907, respectively)	**$ 726,751,271**	**$ 695,247,300**

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2012 (Unaudited)	Year Ended December 31, 2011
Class A		
Shares outstanding at beginning of period	47,896,105	53,096,781
Shares sold	1,401,510	4,228,529
Shares issued to shareholders in reinvestment of distributions	818,177	819,032
Shares redeemed	(3,458,006)	(10,248,237)
Net increase (decrease) in Class A shares	(1,238,319)	(5,200,676)
Shares outstanding at end of period	**46,657,786**	**47,896,105**
Class B		
Shares outstanding at beginning of period	3,425,349	4,060,194
Shares sold	163,297	300,443
Shares issued to shareholders in reinvestment of distributions	49,033	49,329
Shares redeemed	(344,119)	(984,617)
Net increase (decrease) in Class B shares	(131,789)	(634,845)
Shares outstanding at end of period	**3,293,560**	**3,425,349**
Class B2		
Shares outstanding at beginning of period	1,355,747	1,536,957
Shares sold	16,245	13,661
Shares issued to shareholders in reinvestment of distributions	17,320	17,661
Shares redeemed	(103,144)	(212,532)
Net increase (decrease) in Class B2 shares	(69,579)	(181,210)
Shares outstanding at end of period	**1,286,168**	**1,355,747**

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

Financial Highlights

Class A	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$13.20**	**$13.17**	**$11.68**	**$ 9.55**	**$15.53**	**$14.97**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.12	.23	.21	.21	.27	.27
Net realized and unrealized gain (loss)	1.11	.03	1.51	2.20	(5.93)	.52
Total from investment operations	1.23	.26	1.72	2.41	(5.66)	.79
Less distributions from:						
Net investment income	(.25)	(.23)	(.23)	(.28)	(.32)	(.23)
Net asset value, end of period	**$14.18**	**$13.20**	**$13.17**	**$11.68**	**$ 9.55**	**$15.53**
Total Return (%)	9.30**	1.83	14.70	26.32[b]	(37.15)[b]	5.30[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	662	632	699	678	584	1,046
Ratio of expenses before expense reductions (%)	.34*	.33	.33	.34	.33	.33
Ratio of expenses after expense reductions (%)	.34*	.33	.33	.32	.28	.30
Ratio of net investment income (loss) (%)	1.78*	1.74	1.74	2.10	2.07	1.71
Portfolio turnover rate (%)	2**	6	5	8	6	7[c]

a Based on average shares outstanding during the period.
b Total return would have been lower had certain expenses not been reduced.
c Excludes portfolio securities delivered as a result of processing redemption in-kind transactions.
* Annualized
** Not annualized

Class B	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$13.19**	**$13.17**	**$11.68**	**$ 9.54**	**$15.52**	**$14.96**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.11	.20	.18	.18	.24	.23
Net realized and unrealized gain (loss)	1.11	.01	1.51	2.22	(5.94)	.52
Total from investment operations	1.22	.21	1.69	2.40	(5.70)	.75
Less distributions from:						
Net investment income	(.22)	(.19)	(.20)	(.26)	(.28)	(.19)
Net asset value, end of period	**$14.19**	**$13.19**	**$13.17**	**$11.68**	**$ 9.54**	**$15.52**
Total Return (%)	9.19**	1.50	14.52	26.03[b]	(37.34)[b]	5.03[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	47	45	53	50	40	65
Ratio of expenses before expense reductions (%)	.59*	.58	.58	.59	.58	.58
Ratio of expenses after expense reductions (%)	.59*	.58	.58	.57	.53	.55
Ratio of net investment income (loss) (%)	1.53*	1.49	1.49	1.85	1.82	1.46
Portfolio turnover rate (%)	2**	6	5	8	6	7[c]

a Based on average shares outstanding during the period.
b Total return would have been lower had certain expenses not been reduced.
c Excludes portfolio securities delivered as a result of processing redemption in-kind transactions.
* Annualized
** Not annualized

Class B2	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$13.18**	**$13.15**	**$11.67**	**$ 9.54**	**$15.51**	**$14.96**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.10	.18	.16	.17	.22	.21
Net realized and unrealized gain (loss)	1.10	.02	1.50	2.21	(5.93)	.52
Total from investment operations	1.20	.20	1.66	2.38	(5.71)	.73
Less distributions from:						
Net investment income	(.19)	(.17)	(.18)	(.25)	(.26)	(.18)
Net asset value, end of period	**$14.19**	**$13.18**	**$13.15**	**$11.67**	**$ 9.54**	**$15.51**
Total Return (%)	9.10**	1.43	14.29	25.79[b]	(37.36)[b]	4.85[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	18	18	20	21	19	48
Ratio of expenses before expense reductions (%)	.74*	.73	.73	.74	.72	.72
Ratio of expenses after expense reductions (%)	.74*	.73	.73	.70	.63	.65
Ratio of net investment income (loss) (%)	1.38*	1.34	1.34	1.72	1.72	1.36
Portfolio turnover rate (%)	2**	6	5	8	6	7[c]

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

c Excludes portfolio securities delivered as a result of processing redemption in-kind transactions.

* Annualized

** Not annualized

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

DWS Investments VIT Funds (the "Trust") is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company. The Trust is organized as a Massachusetts business trust. The Trust is comprised of two series. DWS Equity 500 Index VIP (the "Fund") is a diversified series of the Trust offered to investors. The Fund is an 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 Fund offers three classes of shares to investors: Class A shares, Class B shares and Class B2 shares. Class B and Class B2 shares are subject to Rule 12b-1 distribution fees under the 1940 Act equal to an annual rate of 0.25% and recordkeeping fees equal to an annual rate up to 0.15% of Class B and Class B2 shares average daily net assets. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain Fund-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 fees and recordkeeping 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 Fund'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 Fund in the preparation of its financial statements.

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.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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 at prices supplied by independent pricing services approved by the Fund's Board. 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 one or more broker-dealers. 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. These securities are generally categorized as Level 2.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Futures contracts are generally valued at the settlement prices established each day on the exchange on which they are traded and are categorized as Level 1.

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 Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market

in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the issuer of securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Federal Income Taxes. The Fund's 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 income to its shareholders.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $2,055,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2017, the expiration date, whichever occurs first.

From November 1, 2011 to December 31, 2011, the Fund elects to defer qualified late year losses of approximately $714,000 of net long-term realized capital losses and $129,000 of net short-term realized capital losses and treat them as arising in the fiscal year ending December 31, 2012.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. Net investment income of the Fund, if any, is declared and distributed to shareholders annually. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the Fund if not distributed, and, therefore, will be distributed to shareholders at least annually. The Fund may also make additional distributions for tax purposes if necessary.

The timing and characterization of certain income and capital gain 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 futures contracts 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 Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

The tax character of current year distributions will be determined at the end of the current fiscal year.

Contingencies. In the normal course of business, the Fund may enter into contracts with service providers that contain general 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 been made. However, based on experience, the Fund expects the risk of loss to be remote.

Expenses. Expenses of the Trust arising in connection with a specific Fund are allocated to that Fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset valuation 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. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Derivative Instruments

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). For the six months ended June 30, 2012, the Fund invested in futures to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the stock market.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default. Upon a futures contract close out or expiration, realized gain or loss is recognized.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts disclosed in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of June 30, 2012 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $5,765,000 to $10,524,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2012 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivative	Futures Contracts
Equity Contracts (a)	$ 279,655

The above derivative is located in the following Statement of Assets and Liabilities account:

(a) Includes cumulative appreciation of futures contracts as disclosed in the Investment Portfolio. Unsettled variation margin is disclosed separately within the Statement of Assets and Liabilities.

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2012 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	Futures Contracts
Equity Contracts (a)	$ 846,200

The above derivative is located in the following Statement of Operations account:

(a) Net realized gain (loss) from futures

Change in Net Unrealized Appreciation (Depreciation)	Futures Contracts
Equity Contracts (a)	$ 293,468

The above derivative is located in the following Statement of Operations account:

(a) Change in net unrealized appreciation (depreciation) on futures

C. Purchases and Sales of Securities

During the six months ended June 30, 2012, purchases and sales of investment securities (excluding short-term investments) aggregated $11,093,379 and $34,437,314, respectively.

D. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor determines the securities, instruments and other contracts relating to investments to be purchased, sold, or entered into by the Fund or delegates such responsibility to the Fund's sub-advisor. Northern

Trust Investments, Inc. ("NTI") acts as investment sub-advisor for the Fund and is paid by the Advisor for its services. As investment sub-advisor to the Fund, NTI makes investment decisions and buys and sells securities for the Fund.

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays the Advisor an annual fee based on its average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

First $1 billion of the Fund's average daily net assets	.200%
Next $1 billion of such net assets	.175%
Over $2 billion of such net assets	.150%

Accordingly, for the six months ended June 30, 2012, the fee pursuant to the management agreement was equivalent to an annualized effective rate of 0.20% of the Fund's average daily net assets.

Administration Fee. Pursuant to the Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the six months ended June 30, 2012, the Administration Fee was $364,832, of which $57,932 is unpaid.

Distribution Service Agreement. DWS Investments Distributors, Inc. ("DIDI"), an affiliate of the Advisor, is the Fund's distributor. In accordance with the Distribution Plan, DIDI receives 12b-1 fees of 0.25% of average daily net assets of Class B and B2 shares. For the six months ended June 30, 2012, the Distribution Service Fees were as follows:

Distribution Service Fees	**Total Aggregated**	**Unpaid at June 30, 2012**
Class B	$ 58,632	$ 9,308
Class B2	23,094	3,648
	$ 81,726	**$ 12,956**

Service Provider Fees. DWS Investments Service Company ("DISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent of the Fund. Pursuant to a sub-transfer agency agreement among DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee they receive from the Fund. For the six months ended June 30, 2012, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at June 30, 2012**
Class A	$ 285	$ 94
Class B	40	13
Class B2	20	6
	$ 345	**$ 113**

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2012, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $12,825, of which $1,968 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the six months ended June 30, 2012, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $9,262.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $375 million revolving credit facility provided by a syndication of banks. The Fund may borrow 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 on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at June 30, 2012.

F. Ownership of the Fund

At June 30, 2012, two participating insurance companies were beneficial owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 60% and 12%, respectively. At June 30, 2012, one participating insurance company was a beneficial owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 89%. At June 30, 2012, one participating insurance company was a beneficial owner of record of 100% of the total outstanding Class B2 shares of the Fund.

Information About Your Fund's Expenses (Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (January 1, 2012 to June 30, 2012).

The tables illustrate your Fund's expenses in two ways:

- **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund'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% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund'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. 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, 2012

Actual Fund Return	Class A	Class B	Class B2
Beginning Account Value 1/1/12	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 6/30/12	$1,093.00	$1,091.90	$1,091.00
Expenses Paid per $1,000*	$ 1.77	$ 3.07	$ 3.85

Hypothetical 5% Fund Return	Class A	Class B	Class B2
Beginning Account Value 1/1/12	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 6/30/12	$1,023.17	$1,021.93	$1,021.18
Expenses Paid per $1,000*	$ 1.71	$ 2.97	$ 3.72

* Expenses are equal to the Fund's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by 182 (the number of days in the most recent six-month period), then divided by 366.

Annualized Expense Ratios	Class A	Class B	Class B2
DWS Equity 500 Index VIP	.34%	.59%	.74%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

Proxy Voting

The Fund's policies and procedures for voting proxies for portfolio securities and information about how the Fund voted proxies related to its portfolio securities during the 12-month period ended June 30 are available on our Web site — www.dws-investments.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — www.sec.gov. To obtain a written copy of the Fund's policies and procedures without charge, upon request, call us toll free at (800) 728-3337.

Summary of Management Fee Evaluation by Independent Fee Consultant

September 26, 2011

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds (formerly the DWS Scudder Funds). My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2011, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007, 2008, 2009 and 2010.

Qualifications

For more than 35 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past ten years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds and have served in various leadership and financial oversight capacities with non-profit organizations.

Evaluation of Fees for each DWS Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 109 mutual fund portfolios in the DWS Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

- The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.
- The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

DeAM's Fees for Similar Services to Others

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Fund. These similar products included the other DWS Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

Costs and Profit Margins

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

Economies of Scale

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Fund compares with this industry observation, I reviewed:

- The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.
- Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.
- How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

Quality of Service — Performance

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

Complex-Level Considerations

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

- I reviewed DeAM's profitability analysis for all DWS Funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.
- I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.
- I considered how aggregated DWS Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.
- I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

Findings

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Funds are reasonable.

Thomas H. Mack

Thomas H. Mack
President, Thomas H. Mack & Co., Inc.

Notes

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DWS INVESTMENTS
Deutsche Bank Group

JUNE 30, 2012

SEMIANNUAL REPORT

DWS VARIABLE SERIES I

DWS Global Small Cap Growth VIP

DWS INVESTMENTS
Deutsche Bank Group

Contents

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus or summary prospectus, if available, call (800) 728-3337 or your financial representative. We advise you to consider the Fund's objectives, risks, charges and expenses carefully before investing. The summary prospectus and prospectus contain this and other important information about the Fund. Please read the prospectus carefully before you invest.

Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. The Fund may lend securities to approved institutions. Stocks of smaller companies involve greater risk than securities of larger, more-established companies. Stocks may decline in value. See the prospectus for details.

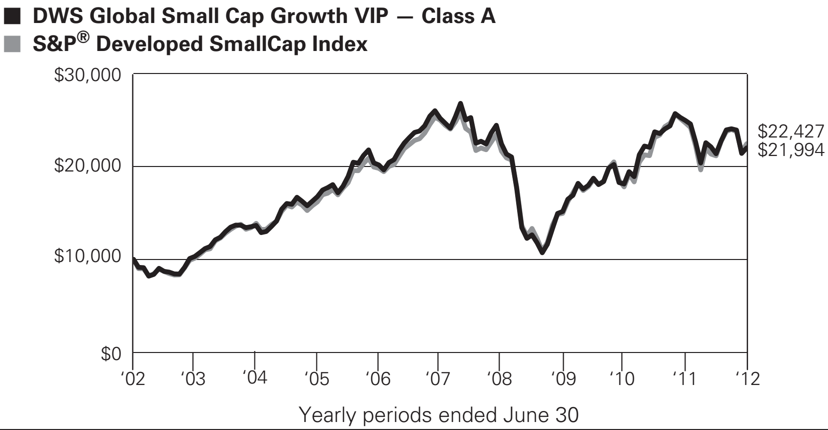
Performance Summary

June 30, 2012 (Unaudited)

Fund 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 contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2012 are 1.12% and 1.38% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment



The S&P® Developed SmallCap Index is an unmanaged index of small-capitalization stocks within 26 countries around the globe.

Index returns do not reflect any fees or expenses and it is not possible to invest directly into an index.

Comparative Results

DWS Global Small Cap Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,298	$8,822	$14,537	$8,737	$21,994
	Average annual total return	2.98%	–11.78%	13.28%	–2.66%	8.20%
S&P Developed SmallCap Index	Growth of $10,000	$10,617	$9,089	$15,013	$8,981	$22,427
	Average annual total return	6.17%	–9.11%	14.50%	–2.13%	8.41%

DWS Global Small Cap Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,284	$8,800	$14,443	$8,606	$21,452
	Average annual total return	2.84%	–12.00%	13.04%	–2.96%	7.93%
S&P Developed SmallCap Index	Growth of $10,000	$10,617	$9,089	$15,013	$8,981	$22,427
	Average annual total return	6.17%	–9.11%	14.50%	–2.13%	8.41%

The growth of $10,000 is cumulative.

‡ Total returns shown for periods less than one year are not annualized.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/12**	**12/31/11**
Common Stocks	97%	99%
Cash Equivalents	3%	1%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/12**	**12/31/11**
United States	45%	45%
Continental Europe	22%	22%
United Kingdom	11%	11%
Asia (excluding Japan)	10%	10%
Japan	7%	7%
Canada	2%	1%
Latin America	1%	1%
Middle East	1%	1%
Australia	0%	1%
Other	1%	1%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/12**	**12/31/11**
Industrials	25%	23%
Consumer Discretionary	21%	20%
Health Care	19%	20%
Financials	11%	10%
Information Technology	10%	12%
Energy	7%	8%
Consumer Staples	4%	5%
Materials	3%	2%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 5.

Following the Fund'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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management

Joseph Axtell, CFA

Portfolio Manager

Investment Portfolio

June 30, 2012 (Unaudited)

	Shares	Value ($)
Common Stocks 96.6%		
Australia 0.4%		
Austal Ltd. (Cost $585,193)	306,363	**508,100**
Austria 1.2%		
Andritz AG (Cost $1,197,463)	27,269	**1,403,866**
Bermuda 1.1%		
Energy XXI (Bermuda) Ltd.	19,214	601,206
Lazard Ltd. "A" (a)	26,243	682,056
(Cost $1,243,125)		**1,283,262**
Brazil 1.1%		
Fleury SA (Cost $1,188,202)	102,523	**1,301,636**
Canada 1.6%		
Americas Petrogas, Inc.*	192,584	357,513
Fortress Paper Ltd. "A"*	19,448	347,088
SunOpta, Inc.*	222,575	1,248,645
(Cost $2,836,422)		**1,953,246**
Channel Islands 0.8%		
Randgold Resources Ltd. (ADR) (Cost $652,403)	10,775	**969,858**
China 1.9%		
Charm Communications, Inc. (ADR)	108,380	705,554
Minth Group Ltd.	1,391,554	1,510,206
(Cost $1,809,876)		**2,215,760**
Cyprus 0.6%		
ProSafe SE (Cost $603,860)	95,272	**692,732**
France 1.3%		
Flamel Technologies SA (ADR)*	161,320	701,742
JC Decaux SA	41,153	908,067
(Cost $3,032,187)		**1,609,809**
Germany 5.2%		
Fresenius Medical Care AG & Co. KGaA	28,308	2,003,686
Gerresheimer AG*	12,927	608,807
M.A.X. Automation AG (b)	217,300	1,072,443
Rational AG	5,513	1,314,190
United Internet AG (Registered)	71,715	1,231,106
(Cost $2,581,181)		**6,230,232**
Gibraltar 0.3%		
Bwin.Party Digital Entertainment PLC (Cost $864,797)	209,531	**361,607**
Hong Kong 3.1%		
K Wah International Holdings Ltd.	3,860,033	1,519,063
REXLot Holdings Ltd.	20,422,633	1,463,855
SOCAM Development Ltd.	451,410	437,641
Techtronic Industries Co., Ltd.	240,207	304,663
(Cost $3,240,251)		**3,725,222**
Ireland 4.1%		
C&C Group PLC (c)	120,694	515,251
C&C Group PLC (c)	185,737	796,816
Paddy Power PLC	33,340	2,176,938
Ryanair Holdings PLC* (c)	2,200	11,147
Ryanair Holdings PLC* (c)	285,168	1,451,453
(Cost $2,582,736)		**4,951,605**
Israel 0.6%		
EZchip Semiconductor Ltd.* (a) (Cost $608,995)	18,342	**734,414**
Italy 0.5%		
Prysmian SpA (Cost $776,260)	43,156	**645,497**
Japan 6.4%		
Hajime Construction Co., Ltd.	38,329	1,110,477
Kato Sangyo Co., Ltd.	21,960	442,020
Kusuri No Aoki Co., Ltd.	15,265	451,266
MISUMI Group, Inc.	49,863	1,174,369
Nippon Seiki Co., Ltd.	100,890	1,030,594
OSG Corp.	57,461	826,400
Sanrio Co., Ltd. (b)	15,547	566,653
Sumikin Bussan Corp.	407,782	1,028,724
United Arrows Ltd.	39,247	978,703
(Cost $7,619,943)		**7,609,206**
Korea 0.9%		
DGB Financial Group, Inc. (Cost $1,293,440)	87,306	**1,064,123**
Luxembourg 1.0%		
L'Occitane International SA (Cost $938,911)	437,624	**1,212,091**
Malaysia 0.7%		
Hartalega Holdings Bhd. (Cost $595,736)	680,121	**863,285**
Netherlands 4.2%		
Brunel International NV	22,825	905,738
Chicago Bridge & Iron Co. NV (d)	28,229	1,071,573
Koninklijke Vopak NV	28,572	1,832,220
SBM Offshore NV*	84,575	1,173,759
(Cost $2,491,209)		**4,983,290**
Philippines 0.7%		
Alliance Global Group, Inc. (Cost $789,009)	3,054,858	**845,374**
Singapore 2.3%		
Amtek Engineering Ltd.	1,076,641	534,583
Lian Beng Group Ltd.	1,715,343	511,319
UOB-Kay Hian Holdings Ltd.	558,337	694,130
Yongnam Holdings Ltd.	5,381,892	981,299
(Cost $3,333,594)		**2,721,331**
Switzerland 2.2%		
Dufry AG (Registered)*	10,330	1,253,119
Partners Group Holding AG	7,929	1,409,631
(Cost $1,689,711)		**2,662,750**
United Arab Emirates 0.3%		
Lamprell PLC (Cost $609,287)	203,643	**322,123**
United Kingdom 10.6%		
Aegis Group PLC	246,159	624,928
ARM Holdings PLC	141,768	1,128,956
Ashmore Group PLC	290,155	1,592,306
Babcock International Group PLC	153,039	2,047,801

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

	Shares	Value ($)
Burberry Group PLC	49,152	1,025,271
Domino's Pizza Group PLC	137,972	1,115,300
Hargreaves Lansdown PLC	82,882	690,880
IG Group Holdings PLC	128,107	964,524
John Wood Group PLC	87,220	940,310
Rotork PLC	44,187	1,364,996
Serco Group PLC	71,008	597,051
The Weir Group PLC	25,413	612,931
(Cost $7,451,784)		**12,705,254**
United States 43.5%		
Accuray, Inc.* (b)	100,384	686,627
Advance Auto Parts, Inc. (b)	16,295	1,111,645
Aecom Technology Corp.*	34,480	567,196
Aeropostale, Inc.*	51,413	916,694
Affiliated Managers Group, Inc.*	9,514	1,041,307
Altra Holdings, Inc.	47,738	753,306
Ancestry.com, Inc.* (b)	35,029	964,348
Applied Industrial Technologies, Inc.	16,377	603,492
Approach Resources, Inc.* (b)	24,637	629,229
BE Aerospace, Inc.*	39,951	1,744,261
BorgWarner, Inc.* (b)	15,082	989,228
Cardtronics, Inc.*	41,007	1,238,821
Centene Corp.* (b)	45,288	1,365,886
Cognex Corp.	30,625	969,281
CONMED Corp.	28,686	793,742
Deckers Outdoor Corp.* (b)	12,057	530,629
Dresser-Rand Group, Inc.*	26,444	1,177,816
FSI International, Inc.*	131,090	470,613
Green Mountain Coffee Roasters, Inc.* (b)	9,054	197,196
Guess?, Inc.	29,951	909,612
Harris Corp.	22,354	935,515
Haynes International, Inc.	10,849	552,648
Incyte Corp., Ltd.* (b)	38,359	870,749
Jarden Corp.	31,571	1,326,613
Jefferies Group, Inc. (b)	55,023	714,749
Joy Global, Inc.	8,798	499,111
Manitowoc Co., Inc. (b)	79,116	925,657
Metropolitan Health Networks, Inc.*	93,357	893,426
MICROS Systems, Inc.*	8,590	439,808
Molina Healthcare, Inc.*	39,368	923,573
NIC, Inc.	65,820	835,914
NxStage Medical, Inc.*	63,679	1,067,260
Oil States International, Inc.*	15,628	1,034,574
Pacira Pharmaceuticals, Inc.* (b)	144,940	2,324,838
Par Pharmaceutical Companies, Inc.*	27,283	986,008
Parametric Technology Corp.*	30,835	646,302
Prosperity Bancshares, Inc.	21,175	889,985
Questcor Pharmaceuticals, Inc.* (b)	19,654	1,046,379
Rockwood Holdings, Inc.	12,506	554,641
Rosetta Resources, Inc.*	13,680	501,235
Sauer-Danfoss, Inc.	18,936	661,434
Schweitzer-Mauduit International, Inc.	22,171	1,510,732
Stericycle, Inc.*	6,734	617,306
SXC Health Solutions Corp.* (b)	11,950	1,185,560
Sycamore Networks, Inc.*	41,306	599,763
Tenneco, Inc.*	21,800	584,676
Tesla Motors, Inc.* (b)	10,163	318,000
Thoratec Corp.*	54,408	1,827,021
TiVo, Inc.*	72,127	596,490
TreeHouse Foods, Inc.*	19,325	1,203,754
United Rentals, Inc.* (b)	8,777	298,769
Urban Outfitters, Inc.*	40,046	1,104,869
VeriFone Systems, Inc.* (b)	19,782	654,586
VIVUS, Inc.*	32,906	939,137
Volcano Corp.*	23,866	683,761
WABCO Holdings, Inc.*	23,677	1,253,224
Waddell & Reed Financial, Inc. "A"	25,492	771,898
WellCare Health Plans, Inc.*	15,046	797,438
Zions Bancorp. (b)	43,060	836,225
(Cost $41,643,843)		**52,074,557**
Total Common Stocks (Cost $92,259,418)		**115,650,230**

Warrants 0.0%

	Shares	Value ($)
Hong Kong 0.0%		
Kingboard Chemical Holdings Ltd., Expiration Date 10/31/2012* (Cost $0)	39,014	**50**
Malaysia 0.0%		
Hartalega Holdings Bhd., Expiration Date 5/29/2015* (Cost $0)	68,733	**9,014**
Total Warrants (Cost $0)		**9,064**

Securities Lending Collateral 12.2%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.24% (e) (f) (Cost $14,562,494)	14,562,494	**14,562,494**

Cash Equivalents 3.1%

	Shares	Value ($)
Central Cash Management Fund, 0.14% (e) (Cost $3,663,433)	3,663,433	**3,663,433**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $110,485,345)†	111.9	**133,885,221**
Other Assets and Liabilities, Net	(11.9)	**(14,183,099)**
Net Assets	100.0	**119,702,122**

* Non-income producing security.

† The cost for federal income tax purposes was $111,154,196. At June 30, 2012, net unrealized appreciation for all securities based on tax cost was $22,731,025. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $32,387,210 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $9,656,185.

(a) Listed on the NASDAQ Stock Market, Inc.

(b) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2012 amounted to $14,480,671, which is 12.1% of net assets.

(c) Securities with the same description are the same corporate entity but trade on different stock exchanges.

(d) Listed on the New York Stock Exchange.

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

(e) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(f) Represents collateral held in connection with securities lending. Income earned by the Fund is net of borrower rebates.

ADR: American Depositary Receipt

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2012 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks & Warrants (g)				
Australia	$ —	$ 508,100	$ —	$ 508,100
Austria	—	1,403,866	—	1,403,866
Bermuda	1,283,262	—	—	1,283,262
Brazil	1,301,636	—	—	1,301,636
Canada	1,953,246	—	—	1,953,246
Channel Islands	969,858	—	—	969,858
China	705,554	1,510,206	—	2,215,760
Cyprus	—	692,732	—	692,732
France	701,742	908,067	—	1,609,809
Germany	—	6,230,232	—	6,230,232
Gibraltar	—	361,607	—	361,607
Hong Kong	—	3,725,272	—	3,725,272
Ireland	—	4,951,605	—	4,951,605
Israel	734,414	—	—	734,414
Italy	—	645,497	—	645,497
Japan	—	7,609,206	—	7,609,206
Korea	—	1,064,123	—	1,064,123
Luxembourg	—	1,212,091	—	1,212,091
Malaysia	—	863,285	9,014	872,299
Netherlands	1,071,573	3,911,717	—	4,983,290
Philippines	—	845,374	—	845,374
Singapore	—	2,721,331	—	2,721,331
Switzerland	—	2,662,750	—	2,662,750
United Arab Emirates	—	322,123	—	322,123
United Kingdom	—	12,705,254	—	12,705,254
United States	52,074,557	—	—	52,074,557
Short-Term Investments (g)	18,225,927	—	—	18,225,927
Total	**$ 79,021,769**	**$ 54,854,438**	**$ 9,014**	**$133,885,221**

There have been no transfers between Level 1 and Level 2 fair value measurements during the period ended June 30, 2012.

(g) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of June 30, 2012 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $92,259,418) — including $14,480,671 of securities loaned	$	115,659,294
Investment in Daily Assets Fund Institutional (cost $14,562,494)*		14,562,494
Investment in Central Cash Management Fund (cost $3,663,433)		3,663,433
Total investments in securities, at value (cost $110,485,345)		133,885,221
Foreign currency, at value (cost $120,432)		120,549
Receivable for investments sold		697,355
Receivable for Fund shares sold		2,960
Dividends receivable		170,815
Interest receivable		11,585
Foreign taxes recoverable		43,936
Other assets		263
Total assets		134,932,684
Liabilities		
Payable upon return of securities loaned		14,562,494
Payable for investments purchased		418,977
Payable for Fund shares redeemed		97,932
Accrued management fee		69,973
Accrued Trustees' fees		534
Other accrued expenses and payables		80,652
Total liabilities		15,230,562
Net assets, at value	**$**	**119,702,122**
Net Assets Consist of		
Undistributed net investment income		373,845
Net unrealized appreciation (depreciation) on:		
Investments		23,399,876
Foreign currency		(1,401)
Accumulated net realized gain (loss)		4,506,571
Paid-in capital		91,423,231
Net assets, at value	**$**	**119,702,122**
Class A		
Net Asset Value, offering and redemption price per share ($117,908,661 ÷ 9,584,775 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**12.30**
Class B		
Net Asset Value, offering and redemption price per share ($1,793,461 ÷ 148,346 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, 2012 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $69,895)	$	1,016,233
Income distributions — Central Cash Management Fund		762
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		27,085
Total income		1,044,080
Expenses:		
Management fee		567,060
Administration fee		63,922
Services to shareholders		1,856
Distribution service fee (Class B)		2,425
Custodian fee		15,908
Professional fees		30,198
Reports to shareholders		22,336
Trustees' fees and expenses		3,460
Other		21,721
Total expenses before expense reductions		728,886
Expense reductions		(93,192)
Total expenses after expense reductions		635,694
Net investment income (loss)		**408,386**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		5,166,796
Foreign currency		(16,960)
		5,149,836
Change in net unrealized appreciation (depreciation) on:		
Investments		(1,454,972)
Foreign currency		14,317
		(1,440,655)
Net gain (loss)		**3,709,181**
Net increase (decrease) in net assets resulting from operations	**$**	**4,117,567**

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, 2012 (Unaudited)	Year Ended December 31, 2011
Operations:		
Net investment income (loss)	$ 408,386	$ 834,776
Net realized gain (loss)	5,149,836	18,183,138
Change in net unrealized appreciation (depreciation)	(1,440,655)	(33,281,372)
Net increase (decrease) in net assets resulting from operations	4,117,567	(14,263,458)
Distributions to shareholders from:		
Net investment income:		
Class A	(847,848)	(2,513,532)
Class B	(8,192)	(31,935)
Net realized gains:		
Class A	(6,623,008)	—
Class B	(104,904)	—
Total distributions	(7,583,952)	(2,545,467)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,854,208	8,812,558
Reinvestment of distributions	7,470,856	2,513,532
Payments for shares redeemed	(11,182,768)	(29,308,758)
Net increase (decrease) in net assets from Class A share transactions	(1,857,704)	(17,982,668)
Class B		
Proceeds from shares sold	37,270	118,378
Reinvestment of distributions	113,096	31,935
Payments for redeemed	(172,767)	(327,414)
Net increase (decrease) in net assets from Class B share transactions	(22,401)	(177,101)
Increase (decrease) in net assets	(5,346,490)	(34,968,694)
Net assets at beginning of period	125,048,612	160,017,306
Net assets at end of period (including undistributed net investment income of $373,845 and $821,499, respectively)	**$ 119,702,122**	**$ 125,048,612**

Other Information		
Class A		
Shares outstanding at beginning of period	9,718,286	11,043,518
Shares sold	139,698	635,010
Shares issued to shareholders in reinvestment of distributions	561,297	165,582
Shares redeemed	(834,506)	(2,125,824)
Net increase (decrease) in Class A shares	(133,511)	(1,325,232)
Shares outstanding at end of period	**9,584,775**	**9,718,286**
Class B		
Shares outstanding at beginning of period	150,330	163,772
Shares sold	2,912	8,664
Shares issued to shareholders in reinvestment of distributions	8,640	2,139
Shares redeemed	(13,536)	(24,245)
Net increase (decrease) in Class B shares	(1,984)	(13,442)
Shares outstanding at end of period	**148,346**	**150,330**

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

Financial Highlights

Class A

	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$12.67**	**$14.28**	**$11.32**	**$ 7.79**	**$18.28**	**$18.15**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.04	.08	.05	.04	.20[c]	.08[c]
Net realized and unrealized gain (loss)	.40	(1.45)	2.96	3.64	(8.18)	1.61
Total from investment operations	.44	(1.37)	3.01	3.68	(7.98)	1.69
Less distributions from:						
Net investment income	(.09)	(.24)	(.05)	(.15)	(.04)	(.23)
Net realized gains	(.72)	—	—	—	(2.47)	(1.33)
Total distributions	(.81)	(.24)	(.05)	(.15)	(2.51)	(1.56)
Net asset value, end of period	**$12.30**	**$12.67**	**$14.28**	**$11.32**	**$ 7.79**	**$18.28**
Total Return (%)[b]	2.98**	(9.90)	26.64	48.20	(49.96)	9.33
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	118	123	158	139	117	310
Ratio of expenses before expense reductions (%)	1.14*	1.12	1.12	1.11	1.11	1.14
Ratio of expenses after expense reductions (%)	.99*	1.00	1.04	.99	.99	1.12
Ratio of net investment income (loss) (%)	.64*	.57	.42	.47	1.53[c]	.45[c]
Portfolio turnover rate (%)	17**	31	39	53	21	19

a Based on average shares outstanding during the period.
b Total return would have been lower had certain expenses not been reduced.
c Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.05 and $0.02 per share and 0.37% and 0.09% of average daily net assets for the years ended December 31, 2008 and 2007, respectively.
* Annualized
** Not annualized

Class B

	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$12.45**	**$14.03**	**$11.11**	**$ 7.65**	**$18.03**	**$17.93**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.03	.05	.03	.02	.16[c]	.01[c]
Net realized and unrealized gain (loss)	.39	(1.43)	2.90	3.57	(8.07)	1.61
Total from investment operations	.42	(1.38)	2.93	3.59	(7.91)	1.62
Less distributions from:						
Net investment income	(.06)	(.20)	(.01)	(.13)	—	(.19)
Net realized gains	(.72)	—	—	—	(2.47)	(1.33)
Total distributions	(.78)	(.20)	(.01)	(.13)	(2.47)	(1.52)
Net asset value, end of period	**$12.09**	**$12.45**	**$14.03**	**$11.11**	**$ 7.65**	**$18.03**
Total Return (%)[b]	2.84**	(10.08)	26.38	47.66	(50.16)	8.92
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	2	2	2	7	5	12
Ratio of expenses before expense reductions (%)	1.39*	1.38	1.34	1.42	1.42	1.53
Ratio of expenses after expense reductions (%)	1.24*	1.25	1.26	1.30	1.30	1.50
Ratio of net investment income (loss) (%)	.40*	.32	.20	.16	1.21[c]	.07[c]
Portfolio turnover rate (%)	17**	31	39	53	21	19

a Based on average shares outstanding during the period.
b Total return would have been lower had certain expenses not been reduced.
c Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.05 and $0.02 per share and 0.37% and 0.09% of average daily net assets for the years ended December 31, 2008 and 2007, respectively.
* Annualized
** Not annualized

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

DWS 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 five diversified funds: DWS Bond VIP, DWS Core Equity VIP (formerly DWS Growth & Income VIP), DWS Capital Growth VIP, DWS Global Small Cap Growth VIP and DWS International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on DWS Global Small Cap Growth VIP. 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 Fund offers two classes of shares (Class A shares and Class B shares). Class B shares are subject to Rule 12b-1 distribution fees under the 1940 Act and recordkeeping 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 Fund. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain fund-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 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 Fund'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 Fund in the preparation of its financial statements.

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.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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. For certain 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, a fair valuation model may be used. This fair valuation model takes into account comparisons to the valuation of American Depository Receipts (ADRs), exchange-traded funds, futures contracts and certain indices and these securities are categorized as Level 2.

Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

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 and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the issuer of securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. 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 acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. 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 gain/appreciation and loss/depreciation on investments.

Taxes. The Fund is treated as a separate taxpayer as provided for in the Internal Revenue Code, as amended. It is the Fund's policy 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 income to the separate accounts of the Participating Insurance Companies which hold its shares.

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 Fund invests, the Fund will provide for foreign taxes, and where appropriate, deferred foreign taxes.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. The Fund will declare and distribute dividends from its net investment income, if any, annually, 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 Fund if not distributed, and, therefore, will be distributed to shareholders at least annually.

The timing and characterization of certain income and capital gain 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 foreign denominated investments, passive foreign investment companies 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 Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

The tax character of current year distributions will be determined at the end of the current fiscal year.

Expenses. Expenses of the Series arising in connection with a specific Fund are allocated to that Fund. Other Series expenses which cannot be directly attributed to a Fund are apportioned among the Funds in the Series.

Contingencies. In the normal course of business, the Fund may enter into contracts with service providers that contain general 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 been made. However, based on experience, the Fund expects 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 net of foreign withholding taxes. 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 Fund is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Purchases and Sales of Securities

During the six months ended June 30, 2012, purchases and sales of investment securities (excluding short-term investments) aggregated $22,055,863 and $34,145,599, respectively.

C. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund 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 Fund.

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays a monthly management fee based on the Fund's average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

First $500 million of average daily net assets	.890%
Next $500 million of average daily net assets	.875%
Next $1 billion of average daily net assets	.860%
Over $2 billion of average daily net assets	.845%

For the period from January 1, 2012 through September 30, 2012 the Advisor has contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.99%
Class B	1.24%

Accordingly, for the six months ended June 30, 2012, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $92,916, and the amount charged aggregated $474,144, which was equivalent to an annualized effective rate of 0.74% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays the Advisor an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the six months ended June 30, 2012, the Administration Fee was $63,922, of which $9,541 is unpaid.

Service Provider Fees. DWS Investments Service Company ("DISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2012, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	**Total Aggregated**	**Waived**
Class A	$ 222	$ 222
Class B	54	54
	$ 276	**$ 276**

Distribution Service Agreement. DWS Investments Distributors, Inc. ("DIDI"), also an affiliate of the Advisor, is the Series' Distributor. In accordance with the Master Distribution Plan, DIDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, DIDI 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. For the six months ended June 30, 2012, the Distribution Service Fee aggregated $2,425, of which $364 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2012, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $13,132, of which $4,192 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the six months ended June 30, 2012, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $2,945.

D. Investing in Emerging Markets

Investing in emerging markets may involve special risks and considerations not typically associated with investing in developed markets. These risks include revaluation of currencies, high rates of inflation or deflation, 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 or delayed settlements and may have prices more volatile or less easily assessed than those of comparable securities of issuers in developed markets.

E. Ownership of the Fund

Three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 49%, 17% and 10%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $375 million revolving credit facility provided by a syndication of banks. The Fund may borrow 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 on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at June 30, 2012.

Information About Your Fund's Expenses (Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, 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 Fund 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 Fund limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (January 1, 2012 to June 30, 2012).

The tables illustrate your Fund's expenses in two ways:

- **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund'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% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund'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. 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, 2012

Actual Fund Return	Class A	Class B
Beginning Account Value 1/1/12	$1,000.00	$1,000.00
Ending Account Value 6/30/12	$1,029.80	$1,028.40
Expenses Paid per $1,000*	$ 5.00	$ 6.25
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/12	$1,000.00	$1,000.00
Ending Account Value 6/30/12	$1,019.94	$1,018.70
Expenses Paid per $1,000*	$ 4.97	$ 6.22

* Expenses are equal to the Fund's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by 182 (the number of days in the most recent six-month period), then divided by 366.

Annualized Expense Ratios	Class A	Class B
DWS Variable Series I — DWS Global Small Cap Growth VIP	.99%	1.24%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

Proxy Voting

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 are available on our Web site — www.dws-investments.com (click on "proxy voting" at the bottom of the page) — 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) 728-3337.

Summary of Management Fee Evaluation by Independent Fee Consultant

September 26, 2011

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds (formerly the DWS Scudder Funds). My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2011, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007, 2008, 2009 and 2010.

Qualifications

For more than 35 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past ten years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds and have served in various leadership and financial oversight capacities with non-profit organizations.

Evaluation of Fees for each DWS Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 109 mutual fund portfolios in the DWS Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

- The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.
- The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

DeAM's Fees for Similar Services to Others

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Fund. These similar products included the other DWS Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

Costs and Profit Margins

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

Economies of Scale

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Fund compares with this industry observation, I reviewed:

The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.

Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.

How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

Quality of Service — Performance

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

Complex-Level Considerations

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

I reviewed DeAM's profitability analysis for all DWS Funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.

I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.

I considered how aggregated DWS Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.

I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

Findings

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Funds are reasonable.

Thomas H. Mack

Thomas H. Mack
President, Thomas H. Mack & Co., Inc.

Notes

DWS Investments Distributors, Inc.
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Chicago, IL 60606
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DWS
INVESTMENTS
Deutsche Bank Group

JUNE 30, 2012

SEMIANNUAL REPORT

DWS VARIABLE SERIES II

DWS Government & Agency Securities VIP

DWS INVESTMENTS

Deutsche Bank Group

Contents

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus or summary prospectus, if available, call (800) 728-3337 or your financial representative. We advise you to consider the Fund's objectives, risks, charges and expenses carefully before investing. The summary prospectus and prospectus contain this and other important information about the Fund. Please read the prospectus carefully before you invest.

Bond investments are subject to interest-rate and credit risks. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. In the current market environment, mortgage-backed securities are experiencing increased volatility. The Fund may lend securities to approved institutions. The "full faith and credit" guarantee of the U.S. government applies to the timely repayment of interest, and does not eliminate market risk. Because of the rising U.S. government debt burden, it is possible that the U.S. government may not be able to meet its financial obligations or that securities issued by the U.S. government may experience credit downgrades. See the prospectus for details.

DWS Investments is part of Deutsche Bank's Asset Management division and, within the U.S., represents the retail asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.

NOT FDIC/NCUA INSURED NO BANK GUARANTEE MAY LOSE VALUE NOT A DEPOSIT
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

Performance Summary

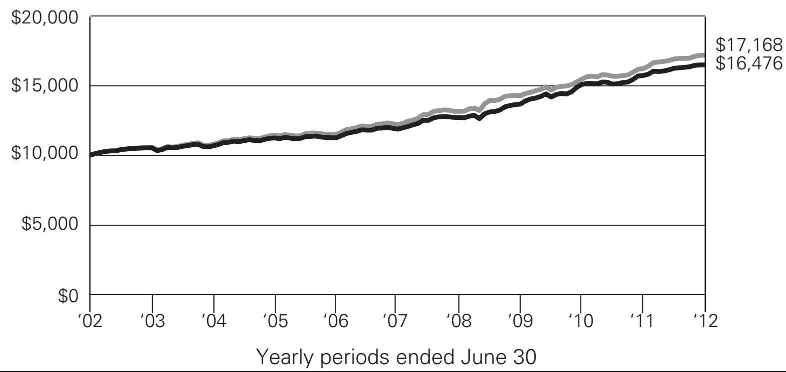
June 30, 2012 (Unaudited)

Fund 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 contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2012 are 0.67% and 1.01% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment in DWS Government & Agency Securities VIP

■ DWS Government & Agency Securities VIP — Class A
■ Barclays GNMA Index



The Barclays 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 do not reflect any fees or expenses and it is not possible to invest directly into an index.

Comparative Results

DWS Government & Agency Securities VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,155	$10,482	$12,059	$13,890	$16,476
	Average annual total return	1.55%	4.82%	6.44%	6.79%	5.12%
Barclays GNMA Index	Growth of $10,000	$10,163	$10,593	$12,033	$14,101	$17,168
	Average annual total return	1.63%	5.93%	6.36%	7.11%	5.55%

DWS Government & Agency Securities VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,135	$10,446	$11,930	$13,638	$15,867
	Average annual total return	1.35%	4.46%	6.06%	6.40%	4.73%
Barclays GNMA Index	Growth of $10,000	$10,163	$10,593	$12,033	$14,101	$17,168
	Average annual total return	1.63%	5.93%	6.36%	7.11%	5.55%

The growth of $10,000 is cumulative.

‡ Total returns shown for periods less than one year are not annualized.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio)	**6/30/12**	**12/31/11**
Mortgage-Backed Securities Pass-Throughs	68%	64%
Government & Agency Obligations	15%	22%
Collateralized Mortgage Obligations	14%	14%
Cash Equivalents	3%	—
	100%	100%

Coupons*	**6/30/12**	**12/31/11**
Less than 4.5%	66%	43%
4.5%–5.49%	16%	39%
5.5%–6.49%	11%	13%
6.5%–7.49%	6%	4%
7.5% and Greater	1%	1%
	100%	100%

Interest Rate Sensitivity	**6/30/12**	**12/31/11**
Effective Maturity	4.8 years	5.0 years
Effective Duration	3.8 years	4.4 years

* Excludes Cash Equivalents, U.S. Treasury Bills and Options Purchased.

Effective maturity is the weighted average of the maturity date of bonds held by the Fund taking into consideration any available maturity shortening features.

Effective duration is an approximate measure of the Fund's sensitivity to interest rate changes taking into consideration any maturity shortening features.

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 5.

Following the Fund'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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management Team

William Chepolis, CFA
Ohn Choe, CFA
John D. Ryan
Portfolio Managers

	Principal Amount ($)	Value ($)
Mortgage-Backed Securities Pass-Throughs 76.5%		
Federal Home Loan Mortgage Corp.:		
4.0%, 5/1/2040 (a)	14,000,000	14,857,500
7.0%, 6/1/2032	736	836
Federal National Mortgage Association:		
4.0%, 6/1/2040 (a)	4,000,000	4,257,188
4.5%, 6/1/2039 (a)	14,000,000	15,018,282
5.0%, 10/1/2033	274,606	298,195
Government National Mortgage Association:		
3.0%, 2/1/2042 (a)	4,000,000	4,143,125
4.0%, with various maturities from 8/1/2040 until 6/15/2042 (a)	11,125,840	12,139,494
4.5%, with various maturities from 6/20/2033 until 12/20/2041 (a)	3,136,060	3,648,731
4.55%, 1/15/2041	621,186	689,179
4.625%, 5/15/2041	201,127	223,280
5.0%, with various maturities from 11/20/2032 until 4/15/2042 (a)	9,068,372	10,134,514
5.5%, with various maturities from 3/15/2029 until 7/20/2040 (a)	22,402,378	24,846,656
6.0%, with various maturities from 7/15/2014 until 5/15/2040 (a)	8,312,046	9,352,592
6.5%, with various maturities from 4/15/2031 until 2/15/2039	3,443,318	3,925,864
7.0%, with various maturities from 2/20/2027 until 11/15/2038	651,575	748,493
7.5%, 10/20/2031	9,661	11,308
Total Mortgage-Backed Securities Pass-Throughs (Cost $99,917,518)		**104,295,237**
Collateralized Mortgage Obligations 16.1%		
Fannie Mae Benchmark Remic, "ZA", Series 2007-B2, 5.5%, 6/25/2037	1,850,428	2,142,371
Federal Home Loan Mortgage Corp.:		
"OA", Series 3179, Principal Only, Zero Coupon, 7/15/2036	594,680	579,712
"YI", Series 3936, Interest Only, 3.0%, 6/15/2025	269,739	21,711
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025	1,947,689	183,967
"WI", Series 3939, Interest Only, 3.0%, 10/15/2025	1,141,333	86,073
"EI", Series 3953, Interest Only, 3.0%, 11/15/2025	1,507,419	126,075
"IO", Series 3974, Interest Only, 3.0%, 12/15/2025	317,750	27,278
"DI", Series 4010, Interest Only, 3.0%, 2/15/2027	322,430	32,032
"AI", Series 3900, Interest Only, 3.5%, 7/15/2013	5,423,376	183,510
"IA", Series 3800, Interest Only, 3.5%, 12/15/2022	2,408,735	82,985
"IK", Series 3754, Interest Only, 3.5%, 6/15/2025	2,101,704	164,579
"NI", Series 3657, Interest Only, 4.5%, 8/15/2027	1,433,578	93,526
"ZK", Series 3382, 5.0%, 7/15/2037	1,256,953	1,440,358
"22", Series 243, Interest Only, 5.008%*, 6/15/2021	1,342,825	126,388
"SC", Series 3326, Interest Only, 5.798%*, 6/15/2037	646,166	80,115
"PI", Series 2535, Interest Only, 6.0%, 9/15/2032	569,733	33,170
"MI", Series 3871, Interest Only, 6.0%, 4/15/2040	301,059	45,830
"WS", Series 2877, Interest Only, 6.358%*, 10/15/2034	592,804	50,978
"A", Series 172, Interest Only, 6.5%, 1/1/2024	34,962	5,323
"S", Series 2416, Interest Only, 7.858%*, 2/15/2032	457,230	90,275
"ST", Series 2411, Interest Only, 8.508%*, 6/15/2021	1,597,220	242,220
"KS", Series 2064, Interest Only, 9.9%*, 5/15/2022	435,912	88,274
Federal National Mortgage Association:		
"DI", Series 2011-136, Interest Only, 3.0%, 1/25/2026	317,024	29,216
"HI", Series 2010-123, Interest Only, 3.5%, 3/25/2024	752,197	58,418
"KI", Series 2011-72, Interest Only, 3.5%, 3/25/2025	2,782,555	172,105
"25", Series 351, Interest Only, 4.5%, 5/1/2019	312,389	31,520
"HI", Series 2009-77, Interest Only, 4.5%, 9/25/2027	939,197	78,342
"21", Series 334, Interest Only, 5.0%, 3/1/2018	150,043	11,688
"20", Series 334, Interest Only, 5.0%, 3/1/2018	226,140	18,193
"23", Series 339, Interest Only, 5.0%, 7/1/2018	320,442	28,648
"26", Series 381, Interest Only, 5.0%, 12/25/2020	102,832	9,032
"ZA", Series 2008-24, 5.0%, 4/25/2038	649,022	748,001
"30", Series 381, Interest Only, 5.5%, 11/25/2019	513,815	55,968
"PI", Series 2009-14, Interest Only, 5.5%, 3/25/2024	1,037,123	112,515
"WI", Series 2011-59, Interest Only, 6.0%, 5/25/2040	720,852	80,561
"101", Series 383, Interest Only, 6.5%, 9/1/2022	1,705,265	289,959
"ZQ", Series G93-39, 6.5%, 12/25/2023	335,308	378,922
"SA", Series 2005-42, Interest Only, 6.555%*, 5/25/2035	958,969	113,787
"ES", Series 2003-17, Interest Only, 6.805%*, 9/25/2022	3,371,610	188,507
"SA", Series G92-57, IOette, 82.6%*, 10/25/2022	52,650	128,980
Government National Mortgage Association:		
"IE", Series 2011-128, Interest Only, 3.5%, 9/20/2026	1,517,276	176,227
"JY", Series 2010-20, 4.0%, 12/20/2033	1,896,752	2,088,173
"LI", Series 2009-104, Interest Only, 4.5%, 12/16/2018	390,822	32,740

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

	Principal Amount ($)	Value ($)
"NI", Series 2010-44, Interest Only, 4.5%, 10/20/2037	811,290	117,451
"CI", Series 2010-87, Interest Only, 4.5%, 11/20/2038	1,251,588	363,049
"MI", Series 2010-169, Interest Only, 4.5%, 8/20/2040	1,065,521	175,812
"AI", Series 2012-15, Interest Only, 4.5%, 9/20/2040	805,814	150,093
"VB", Series 2010-26, 5.0%, 1/20/2024	600,000	710,870
"ZM", Series 2004-24, 5.0%, 4/20/2034	2,254,549	2,593,850
"Z", Series 2004-61, 5.0%, 8/16/2034	1,108,681	1,295,592
"ZB", Series 2005-15, 5.0%, 2/16/2035	1,586,000	1,830,941
"GZ", Series 2005-24, 5.0%, 3/20/2035	481,005	572,469
"ZA", Series 2005-75, 5.0%, 10/16/2035	541,123	647,321
"MZ", Series 2009-98, 5.0%, 10/16/2039	970,967	1,238,764
"AI", Series 2008-51, Interest Only, 5.5%, 5/16/2023	773,665	81,952
"AI", Series 2008-46, Interest Only, 5.5%, 5/16/2023	385,776	42,913
"GI", Series 2003-19, Interest Only, 5.5%, 3/16/2033	1,090,909	262,099
"IB", Series 2010-130, Interest Only, 5.5%, 2/20/2038	309,091	22,922
"BS", Series 2011-93, Interest Only, 5.857%*, 7/16/2041	1,868,860	285,181
"DI", Series 2009-10, Interest Only, 6.0%, 4/16/2038	452,783	73,967
"QA", Series 2007-57, Interest Only, 6.256%*, 10/20/2037	569,136	87,181
"IP", Series 2009-118, Interest Only, 6.5%, 12/16/2039	173,914	30,716
"SA", Series 2006-69, Interest Only, 6.556%*, 12/20/2036	1,059,447	153,017
"PS", Series 2004-34, Interest Only, 6.907%*, 4/16/2034	245,409	46,870
"SK", Series 2003-11, Interest Only, 7.457%*, 2/16/2033	693,997	140,756
"IC", Series 1997-4, Interest Only, 7.5%, 3/16/2027	766,049	174,529
Total Collateralized Mortgage Obligations (Cost $18,685,276)		**21,856,567**

Government & Agency Obligations 17.1%

U.S. Government Sponsored Agency 12.4%

Federal Home Loan Bank, 5.0%, 11/17/2017	14,000,000	**16,908,630**

U.S. Treasury Obligations 4.7%

U.S. Treasury Bill, 0.13%**, 9/6/2012 (b)	1,045,000	1,044,871
U.S. Treasury Note, 2.125%, 2/29/2016	5,000,000	5,287,890
		6,332,761
Total Government & Agency Obligations (Cost $23,242,538)		**23,241,391**

	Contracts	Value ($)

Call Options Purchased 0.3%

Options on Exchange-Traded Futures Contracts 0.0%

	Contracts	Value ($)
10 Year U.S. Treasury Note Future, Option Expiration Date 8/24/2012, Strike Price $134.0	20	**14,375**

Options on Interest Rate Swap Contracts 0.3%

	Contract Amount	Value ($)
Fixed Rate — 3.583% – Floating — LIBOR, Swap Expiration Date 5/11/2026, Option Expiration Date 5/9/2016	2,700,000	96,071
Fixed Rate — 3.635% – Floating — LIBOR, Swap Expiration Date 4/27/2026, Option Expiration Date 4/25/2016	2,600,000	88,507
Fixed Rate — 3.72% – Floating — LIBOR, Swap Expiration Date 4/22/2026, Option Expiration Date 4/20/2016	2,600,000	83,617
Fixed Rate — 4.32% – Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017	6,000,000	168,724
		436,919
Total Call Options Purchased (Cost $667,662)		**451,294**

Put Options Purchased 0.2%

Options on Exchange-Traded Futures Contracts 0.0%

	Contracts	Value ($)
10 Year U.S. Treasury Note Future, Option Expiration Date 8/24/2012, Strike Price $133.0	35	**29,531**

Options on Interest Rate Swap Contracts 0.2%

	Contract Amount	Value ($)
Fixed Rate — 2.32% – Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017	6,000,000	**242,374**
Total Put Options Purchased (Cost $236,773)		**271,905**

Cash Equivalents 3.5%

	Shares	Value ($)
Central Cash Management Fund, 0.14% (c) (Cost $4,788,725)	4,788,725	**4,788,725**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $147,538,492)†	113.7	**154,905,119**
Other Assets and Liabilities, Net	(13.7)	**(18,639,266)**
Net Assets	100.0	**136,265,853**

* These securities are shown at their current rate as of June 30, 2012.

** Annualized yield at time of purchase; not a coupon rate.

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

† The cost for federal income tax purposes was $147,541,856. At June 30, 2012, net unrealized appreciation for all securities based on tax cost was $7,363,263. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $8,287,899 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $924,636.

(a) When-issued or delayed delivery securities included.

(b) At June 30, 2012, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(c) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

Interest Only: 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 of the pool of underlying mortgages.

IOettes: These securities represent the right to receive interest payments on an underlying pool of mortgages with similar features as those associated with IO securities. Unlike IO's, a nominal amount of principal is assigned to an IOette which is small in relation to the interest flow that constitutes almost all of the IOette cash flow. The effective yield of this security is lower than the stated interest rate.

LIBOR: London Interbank Offered Rate

Principal Only: Principal Only (PO) bonds represent the "principal only" portion of payments on a pool of underlying mortgages or mortgage-backed securities.

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 issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

At June 30, 2012, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
10 Year U.S. Treasury Note	USD	9/19/2012	50	6,668,750	**10,625**

Currency Abbreviation	
USD	United States Dollar

Options on Exchange-Traded Futures Contracts	Contracts	Expiration Date	Strike Price ($)	Premiums Received ($)	Value ($) (d)
Call Options					
10 Year U.S. Treasury Note Future	20	8/24/2012	134.0	2,456	(3,750)
Put Options					
10 Year U.S. Treasury Note Future	35	8/24/2012	133.0	29,378	(19,688)
Total				**31,834**	**(23,438)**

(d) Unrealized appreciation on written options on exchange-traded futures contracts at June 30, 2012 was $8,396.

Options on Interest Rate Swap Contracts	Swap Effective/ Expiration Date	Contract Amount	Option Expiration Date	Premiums Received ($)	Value ($) (e)
Call Options					
Fixed — 3.32% – Floating — LIBOR	2/3/2017 2/3/2027	3,000,000	2/1/2017	216,990	(148,340)
Fixed — 4.083% – Floating — LIBOR	5/11/2016 5/11/2026	2,700,000	5/9/2016	91,800	(70,715)
Fixed — 4.135% – Floating — LIBOR	4/27/2016 4/27/2026	2,600,000	4/25/2016	96,200	(65,090)
Fixed — 4.22% – Floating — LIBOR	4/22/2016 4/22/2026	2,600,000	4/20/2016	92,690	(61,579)
Total Call Options				**497,680**	**(345,724)**
Put Options					
Fixed — 1.9% – Floating — LIBOR	4/24/2013 4/24/2023	2,600,000	4/22/2013	35,620	(59,167)
Fixed — 2.07% – Floating — LIBOR	5/10/2013 5/10/2043	2,700,000	5/8/2013	43,200	(70,253)
Fixed — 2.09% – Floating — LIBOR	4/25/2013 4/25/2043	2,600,000	4/23/2013	48,880	(67,694)
Fixed — 3.32% – Floating — LIBOR	2/3/2017 2/3/2027	3,000,000	2/1/2017	216,990	(258,733)
Total Put Options				**344,690**	**(455,847)**
Total				**842,370**	**(801,571)**

(e) Unrealized appreciation on written options on interest rate swap contracts at June 30, 2012 was $40,799.

For information on the Fund's policy and additional disclosures regarding futures contracts, purchased and written options contracts, interest rate swap contracts and total return swap contracts, please refer to the Derivatives section of Note B in the accompanying Notes to Financial Statements.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2012 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed-Income Investments (f)				
Mortgage-Backed Securities Pass-Throughs	$ —	$104,295,237	$ —	$104,295,237
Collateralized Mortgage Obligations	—	21,856,567	—	21,856,567
Government & Agency Obligations	—	23,241,391	—	23,241,391
Short-Term Investments	4,788,725	—	—	4,788,725
Derivatives (g)	54,531	679,293	—	733,824
Total	**$ 4,843,256**	**$150,072,488**	**$ —**	**$154,915,744**

Liabilities				
Derivatives (g)	$ (23,438)	$ (801,571)	$ —	$ (825,009)
Total	**$ (23,438)**	**$ (801,571)**	**$ —**	**$ (825,009)**

There have been no transfers between Level 1 and Level 2 fair value measurements during the period ended June 30, 2012.

(f) See Investment Portfolio for additional detailed categorizations.

(g) Derivatives include value of purchased options, unrealized appreciation (depreciation) on open futures contracts and written options, at value.

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

Statement of Assets and Liabilities

as of June 30, 2012 (Unaudited)

Assets		
Investments		
Investments in non-affiliated securities, at value (cost $142,749,767)	$	150,116,394
Investment in Central Cash Managment Fund (cost $4,788,725)		4,788,725
Total investments in securities, at value (cost $147,538,492)		154,905,119
Receivable for investments sold		1,544,684
Receivable for investments sold — when-issued/delayed delivery securities		104,843,726
Receivable for Fund shares sold		292,259
Interest receivable		740,372
Receivable for variation margin on futures contracts		47,439
Other assets		173
Total assets		262,373,772
Liabilities		
Payable for investments purchased		24,662,265
Payable for investments purchased — when-issued/delayed delivery securities		100,424,661
Payable for Fund shares redeemed		84,684
Options written, at value (premium received $874,204)		825,009
Accrued management fee		60,943
Other accrued expenses and payables		50,357
Total liabilities		126,107,919
Net assets, at value	**$**	**136,265,853**
Net Assets Consist of		
Undistributed net investment income		2,098,713
Net unrealized appreciation (depreciation) on:		
Investments		7,366,627
Futures		10,625
Written options		49,195
Accumulated net realized gain (loss)		2,865,944
Paid-in capital		123,874,749
Net assets, at value	**$**	**136,265,853**
Class A		
Net Asset Value, offering and redemption price per share ($130,397,023 ÷ 10,410,789 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**12.53**
Class B		
Net Asset Value, offering and redemption price per share ($5,868,830 ÷ 468,527 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**12.53**

Statement of Operations

for the six months ended June 30, 2012 (Unaudited)

Investment Income		
Income:		
Interest	$	2,573,430
Income distributions — Central Cash Management Fund		2,377
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		772
Total income		2,576,579
Expenses:		
Management fee		316,494
Administration fee		70,031
Services to shareholders		1,100
Distribution service fee (Class B)		7,370
Record keeping fees (Class B)		2,878
Custodian fee		21,360
Audit and tax fees		31,486
Legal fees		5,066
Reports to shareholders		22,558
Trustees' fees and expenses		3,458
Other		12,776
Total expenses before expense reductions		494,577
Expense reductions		(20,534)
Total expenses after expense reductions		474,043
Net investment income		**2,102,536**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		3,382,533
Swap contracts		(1,010,173)
Futures		527,129
Written options		15,188
		2,914,677
Change in net unrealized appreciation (depreciation) on:		
Investments		(2,976,078)
Swap contracts		156,684
Futures		(7,125)
Written options		40,530
		(2,785,989)
Net gain (loss)		**128,688**
Net increase (decrease) in net assets resulting from operations	**$**	**2,231,224**

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, 2012 (Unaudited)	Year Ended December 31, 2011
Operations:		
Net investment income	$ 2,102,536	$ 5,666,902
Net realized gain (loss)	2,914,677	2,942,171
Change in net unrealized appreciation (depreciation)	(2,785,989)	2,382,498
Net increase (decrease) in net assets resulting from operations	2,231,224	10,991,571
Distributions to shareholders from:		
Net investment income:		
Class A	(5,435,920)	(6,311,902)
Class B	(209,154)	(230,895)
Net realized gain:		
Class A	(2,952,755)	(2,391,762)
Class B	(124,749)	(95,528)
Total distributions	(8,722,578)	(9,030,087)
Fund share transactions:		
Class A		
Proceeds from shares sold	14,011,134	31,578,112
Reinvestment of distributions	8,388,675	8,703,664
Payments for shares redeemed	(31,975,494)	(53,221,292)
Net increase (decrease) in net assets from Class A share transactions	(9,575,685)	(12,939,516)
Class B		
Proceeds from shares sold	504,040	1,566,129
Reinvestment of distributions	333,903	326,423
Payments for shares redeemed	(1,413,393)	(1,133,228)
Net increase (decrease) in net assets from Class B share transactions	(575,450)	759,324
Increase (decrease) in net assets	(16,642,489)	(10,218,708)
Net assets at beginning of period	152,908,342	163,127,050
Net assets at end of period (including undistributed net investment income of $2,098,713 and $5,641,251, respectively)	**$ 136,265,853**	**$ 152,908,342**

Other Information		
Class A		
Shares outstanding at beginning of period	11,145,622	12,120,178
Shares sold	1,069,339	2,446,836
Shares issued to shareholders in reinvestment of distributions	672,170	700,214
Shares redeemed	(2,476,342)	(4,121,606)
Net increase (decrease) in Class A shares	(734,833)	(974,556)
Shares outstanding at end of period	**10,410,789**	**11,145,622**
Class B		
Shares outstanding at beginning of period	511,071	452,192
Shares sold	39,373	120,662
Shares issued to shareholders in reinvestment of distributions	26,755	26,240
Shares redeemed	(108,672)	(88,023)
Net increase (decrease) in Class B shares	(42,544)	58,879
Shares outstanding at end of period	**468,527**	**511,071**

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

Financial Highlights

Class A

Class A	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$13.12**	**$12.98**	**$12.78**	**$12.40**	**$12.38**	**$12.28**
Income (loss) from investment operations:						
Net investment income[a]	.19	.48	.50	.52	.56	.58
Net realized and unrealized gain (loss)	.02	.45	.32	.45	.04	.12
Total from investment operations	.21	.93	.82	.97	.60	.70
Less distributions from:						
Net investment income	(.52)	(.57)	(.62)	(.59)	(.58)	(.60)
Net realized gains	(.28)	(.22)	—	—	—	—
Total distributions	(.80)	(.79)	(.62)	(.59)	(.58)	(.60)
Net asset value, end of period	**$12.53**	**$13.12**	**$12.98**	**$12.78**	**$12.40**	**$12.38**
Total Return (%)	1.55[b]**	7.46	6.61	8.08	4.93[b]	5.95[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	130	146	157	169	211	199
Ratio of expenses before expense reductions (%)	.69*	.67	.64	.58	.66	.66
Ratio of expenses after expense reductions (%)	.66*	.67	.64	.58	.65	.63
Ratio of net investment income (%)	3.02*	3.68	3.86	4.16	4.58	4.77
Portfolio turnover rate (%)	454**	673	423	390	543	465

a Based on average shares outstanding during the period.
b Total return would have been lower had certain expenses not been reduced.
* Annualized
** Not annualized

Class B

Class B	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$13.10**	**$12.95**	**$12.75**	**$12.37**	**$12.35**	**$12.25**
Income (loss) from investment operations:						
Net investment income[a]	.17	.43	.46	.48	.52	.53
Net realized and unrealized gain (loss)	.01	.46	.31	.45	.03	.12
Total from investment operations	.18	.89	.77	.93	.55	.65
Less distributions from:						
Net investment income	(.47)	(.52)	(.57)	(.55)	(.53)	(.55)
Net realized gains	(.28)	(.22)	—	—	—	—
Total distributions	(.75)	(.74)	(.57)	(.55)	(.53)	(.55)
Net asset value, end of period	**$12.53**	**$13.10**	**$12.95**	**$12.75**	**$12.37**	**$12.35**
Total Return (%)	1.35[b]**	7.15	6.24	7.70	4.60[b]	5.43[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	6	7	6	7	8	5
Ratio of expenses before expense reductions (%)	1.04*	1.01	.99	.92	1.00	1.04
Ratio of expenses after expense reductions (%)	1.01*	1.01	.99	.92	1.00	1.01
Ratio of net investment income (%)	2.67*	3.34	3.51	3.81	4.24	4.39
Portfolio turnover rate (%)	454**	673	423	390	543	465

a Based on average shares outstanding during the period.
b Total return would have been lower had certain expenses not been reduced.
* Annualized
** Not annualized

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

DWS Government & Agency Securities VIP (the "Fund") is a diversified series of DWS Variable Series II (the "Trust"), which is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company organized as a Massachusetts business trust.

Multiple Classes of Shares of Beneficial Interest. The Fund offers two classes of shares (Class A shares and Class B shares). Sales of Class B shares are subject to recordkeeping 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 Fund. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain fund-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 Rule 12b-1 fee and recordkeeping 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 Fund'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 Fund in the preparation of its financial statements.

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.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Debt securities are valued at prices supplied by independent pricing services approved by the Fund's Board. 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 one or more broker-dealers. 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. These securities are generally categorized as Level 2.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Futures contracts are generally valued at the settlement prices established each day on the exchange on which they are traded and are categorized as Level 1.

Swap contracts are valued daily based upon prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer. Swap contracts are generally categorized as Level 2.

Exchange-traded options are 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 or asked price are available. Exchange-traded options are categorized as Level 1. Over-the-counter written or purchased options are valued at the price provided by the broker-dealer with which the option was traded and are generally categorized as Level 2.

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 Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

Securities Lending. The Fund may lend securities to certain financial institutions. The Fund retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the issuer of securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments. The Fund had no securities on loan at June 30, 2012.

Mortgage Dollar Rolls. The Fund may enter into mortgage dollar rolls in which the Fund 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. The Fund 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 Fund is able to repurchase them. There can be no assurance that the Fund's use of the cash that it receives from a mortgage dollar roll will provide a return that exceeds its costs.

When-Issued/Delayed Delivery Securities. The Fund may purchase or sell securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the Fund enters into a commitment to purchase or sell a security, the transaction is recorded and the value of the transaction 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. At the time the Fund enters into a purchase 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 transactions 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 Fund's 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 income to its shareholders.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. Distributions of net investment income of the Fund, if any, are made annually. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the Fund if not distributed and, therefore, will be distributed to shareholders at least annually. The Fund may also make additional distributions for tax purposes if necessary.

The timing and characterization of certain income and capital gain 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 futures contracts, investments in swap contracts 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 Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

The tax character of current year distributions will be determined at the end of the current fiscal year.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

Contingencies. In the normal course of business, the Fund may enter into contracts with service providers that contain general 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 been made. However, based on experience, the Fund expects 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. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes for the Fund.

B. Derivative Instruments

Interest Rate Swap Contracts. For the six months ended June 30, 2012, the Fund entered into interest rate swap transactions to gain exposure to different parts of the yield curve while managing overall duration and to enhance potential gains. The use of interest rate swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In an interest rate swap, the Fund agrees to pay to the other party to the interest rate swap (which is known as the "counterparty") a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund a variable rate payment, or the Fund agrees to receive from the counterparty a fixed rate payment in exchange for the counterparty agreeing to receive from the Fund a variable rate payment. In addition, both the Fund and counterparty may agree to exchange variable rate payments based on different indices. The payment obligations are based on the notional amount of the swap. Certain risks may arise when entering into swap transactions including counterparty default, liquidity or unfavorable changes in interest rates. In connection with these agreements, securities and or cash may be identified as collateral in accordance with the terms of the swap agreements to provide assets of value and recourse in the event of default. The maximum counterparty credit risk is the net present value of the cash flows to be received from or paid to the counterparty over the term of the interest rate swap contract, to the extent that this amount is beneficial to the Fund, in addition to any related collateral posted to the counterparty by the Fund. This risk may be partially reduced by a master netting arrangement between the Fund and the counterparty. The value of the swap is adjusted daily and the change in value, if any, is recorded as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Payments received or made at the end of the measurement period are recorded as realized gain or loss in the Statement of Operations.

There are no open interest rate swap contracts as of June 30, 2012. For the six months ended June 30, 2012, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $0 to $27,930,000.

Total Return Swap Contracts. Total return swaps involve commitments to pay interest in exchange for a market-linked return based on a notional amount. For the six months ended June 30, 2012, the Fund entered into total return swap transactions to enhance potential gains. To the extent the total return of the reference security or index underlying the total return swap exceeds or falls short of the offsetting interest rate obligation, the Fund will receive a payment or make a payment to the counterparty, respectively. Certain risks may arise when entering into swap transactions including counterparty default, liquidity or unfavorable changes in the value of underlying reference security or index. The value of the swap is adjusted daily and the change in value, if any, is recorded as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Payments received or made at the end of each measurement period are recorded as realized gain or loss in the Statement of Operations.

There are no open total return swap contracts as of June 30, 2012. For the six months ended June 30, 2012, the investment in total return swap contracts had a total notional amount generally indicative of a range from $0 to $6,900,000.

Options. An option contract is a contract in which the writer (seller) of the option grants the buyer of the option, upon payment of a premium, 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 and interest rate options, will require cash settlement by the Fund if exercised. For the six months ended June 30, 2012, the Fund entered into options on interest rate futures and on interest rate swap contracts in order to hedge portfolio assets against potential adverse interest rate movements of portfolio assets.

If the Fund writes a covered call option, the Fund 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 Fund 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. For exchange-traded contracts, the counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default. The Fund'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 Fund'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.

A summary of the open purchased option contracts as of June 30, 2012 is included in the Fund's Investment Portfolio. A summary of open written option contracts is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the investment in written option contracts had a total value generally indicative of a range from approximately $16,000 to $825,000, and purchased option contracts had a total value generally indicative of a range from $30,000 to approximately $723,000.

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). For the six months ended June 30, 2012, the Fund entered into interest rate futures to gain exposure to different parts of the yield curve while managing overall duration.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange-traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts disclosed in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of June 30, 2012, is included in a table following the Fund's Investment Portfolio. For the period ended June 30, 2012, the investment in futures contracts purchased had a total notional value generally indicative of a range from $0 to approximately $13,959,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from $0 to approximately $6,669,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2012 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	Purchased Options	Futures Contracts	Total
Interest Rate Contracts (a) (b)	$ 723,199	$ 10,625	$ 733,824

Each of the above derivatives is located in the following Statement of Assets and Liabilities accounts:

(a) Investment in non-affiliated securities, at value (includes purchased options)

(b) Includes cumulative appreciation of futures contracts as disclosed in the Investment Portfolio. Unsettled variation margin is disclosed separately within the Statement of Assets and Liabilities.

Liability Derivative	Written Options
Interest Rate Contracts (a)	$ (825,009)

The above derivative is located in the following Statement of Assets and Liabilities account:

(a) Options written, at value

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2012 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Purchased Options**	**Written Options**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ (6,997)	$ 15,188	$ (1,010,173)	$ 527,129	$ (474,853)

Each of the above derivatives is located in the following Statement of Operations accounts:

(a) Net realized gain (loss) from investments (includes purchased options), written options, swap contracts and futures, respectively

Change in Net Unrealized Appreciation (Depreciation)	**Purchased Options**	**Written Options**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ (166,151)	$ 40,530	$ 156,684	$ (7,125)	$ 23,938

Each of the above derivatives is located in the following Statement of Operations accounts:

(a) Change in net unrealized appreciation (depreciation) from investments (includes purchased options), written options, swap contracts and futures, respectively

C. Purchases and Sales of Securities

During the six months ended June 30, 2012, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury securities) aggregated $720,755,135 and $745,208,225, respectively. Purchases and sales of U.S. Treasury securities aggregated $15,362,126 and $25,254,813, respectively.

For the six months ended June 30, 2012, transactions for written options on futures and interest rate swap contracts were as follows:

	Contracts/ Contract Amount	**Premiums**
Outstanding, beginning of period	200	$ 24,915
Options written	21,800,135	880,278
Options closed	(80)	(6,074)
Options expired	(200)	(24,915)
Outstanding, end of period	**21,800,055**	**$ 874,204**

D. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund 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 Fund.

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays a monthly management fee based on the Fund's average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

First $250 million	.450%
Next $750 million	.430%
Next $1.5 billion	.410%
Next $2.5 billion	.400%
Next $2.5 billion	.380%
Next $2.5 billion	.360%
Next $2.5 billion	.340%
Over $12.5 billion	.320%

For the period from January 1, 2012 through April 30, 2013, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A at 0.66%.

Accordingly, for the six months ended June 30, 2012, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $20,401, and the amount charged aggregated $296,093, which was equivalent to an annualized effective rate of 0.42% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the six months ended June 30, 2012, the Administration Fee was $70,031, of which $11,176 is unpaid.

Service Provider Fees. DWS Investments Service Company ("DISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2012, the amounts charged to the Fund by DISC were as follows:

	Total Aggregated	Amount Waived	Unpaid at June 30, 2012
Class A	$ 133	$ 133	$ —
Class B	24	—	2
	$ 157	**$ 133**	**$ 2**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plans, DWS Investments Distributors, Inc. ("DIDI") received a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the six months ended June 30, 2012, the Distribution Service Fee aggregated $7,370, of which $1,206 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2012, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $13,880, of which $3,769 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

E. Ownership of the Fund

At June 30, 2012, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 41%, 35% and 17%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 95%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $375 million revolving credit facility provided by a syndication of banks. The Fund may borrow 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 on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at June 30, 2012.

Information About Your Fund's Expenses **(Unaudited)**

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, 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 Fund 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 Fund limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (January 1, 2012 to June 30, 2012).

The tables illustrate your Fund's expenses in two ways:

- **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund'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% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund'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. 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, 2012

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/12	$1,000.00	$1,000.00
Ending Account Value 6/30/12	$1,015.50	$1,013.50
Expenses Paid per $1,000*	$ 3.31	$ 5.06
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/12	$1,000.00	$1,000.00
Ending Account Value 6/30/12	$1,021.58	$1,019.84
Expenses Paid per $1,000*	$ 3.32	$ 5.07

* Expenses are equal to the Fund's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by 182 (the number of days in the most recent six-month period), then divided by 366.

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Government & Agency Securities VIP	.66%	1.01%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

Proxy Voting

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 are available on our Web site — www.dws-investments.com (click on "proxy voting" at the bottom of the page) — 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) 728-3337.

Summary of Management Fee Evaluation by Independent Fee Consultant

September 26, 2011

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds (formerly the DWS Scudder Funds). My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2011, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007, 2008, 2009 and 2010.

Qualifications

For more than 35 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past ten years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds and have served in various leadership and financial oversight capacities with non-profit organizations.

Evaluation of Fees for each DWS Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 109 mutual fund portfolios in the DWS Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

- The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.
- The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

DeAM's Fees for Similar Services to Others

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Fund. These similar products included the other DWS Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

Costs and Profit Margins

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

Economies of Scale

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Fund compares with this industry observation, I reviewed:

- The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.
- Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.
- How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

Quality of Service — Performance

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

Complex-Level Considerations

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

- I reviewed DeAM's profitability analysis for all DWS Funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.
- I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.
- I considered how aggregated DWS Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.
- I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

Findings

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Funds are reasonable.

Thomas H. Mack

Thomas H. Mack
President, Thomas H. Mack & Co., Inc.

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VS2GAS-3 (R-028384-1 8/12)

JUNE 30, 2012

SEMIANNUAL REPORT

DWS VARIABLE SERIES I

DWS Core Equity VIP

(formerly DWS Growth & Income VIP)

DWS INVESTMENTS

Deutsche Bank Group

Contents

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus or summary prospectus, if available, call (800) 728-3337 or your financial representative. We advise you to consider the Fund's objectives, risks, charges and expenses carefully before investing. The summary prospectus and prospectus contain this and other important information about the Fund. Please read the prospectus carefully before you invest.

Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. The Fund may lend securities to approved institutions. Fund management could be wrong in its analysis of industries, companies, economic trends and favor a security that underperforms the market. Stocks may decline in value. See the prospectus for details.

DWS Investments is part of Deutsche Bank's Asset Management division and, within the U.S., represents the retail asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.

NOT FDIC/NCUA INSURED NO BANK GUARANTEE MAY LOSE VALUE NOT A DEPOSIT
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

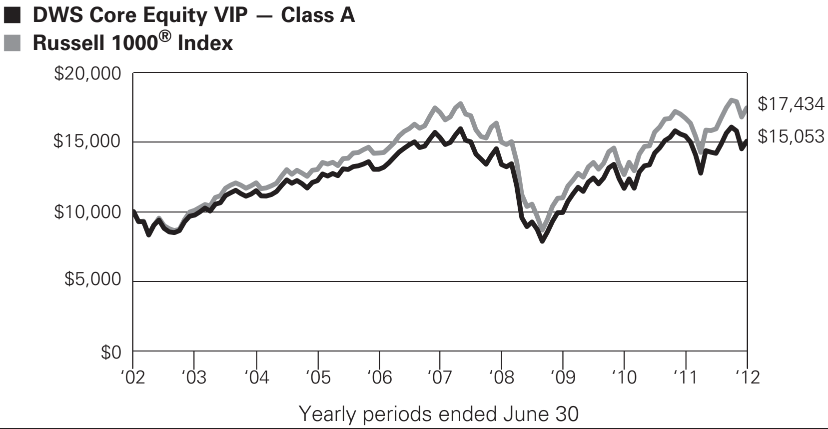
Performance Summary

June 30, 2012 (Unaudited)

Fund 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 contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2012 are 0.63% and 0.88% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment



The Russell 1000® Index is an unmanaged index that measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents approximately 92% of the total market capitalization of the Russell 3000® Index.

Index returns do not reflect any fees or expenses and it is not possible to invest directly into an index.

Comparative Results

DWS Core Equity VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,617	$9,754	$15,155	$9,836	$15,053
	Average annual total return	6.17%	–2.46%	14.86%	–0.33%	4.17%
Russell 1000® Index	Growth of $10,000	$10,938	$10,437	$15,869	$10,195	$17,434
	Average annual total return	9.38%	4.37%	16.64%	0.39%	5.72%

DWS Core Equity VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,591	$9,718	$15,021	$9,712	$14,627
	Average annual total return	5.91%	–2.82%	14.52%	–0.58%	3.88%
Russell 1000® Index	Growth of $10,000	$10,938	$10,437	$15,869	$10,195	$17,434
	Average annual total return	9.38%	4.37%	16.64%	0.39%	5.72%

The growth of $10,000 is cumulative.

‡ Total returns shown for periods less than one year are not annualized.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/12**	**12/31/11**
Common Stocks	99%	99%
Cash Equivalents*	1%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/12**	**12/31/11**
Information Technology	17%	20%
Financials	17%	17%
Health Care	15%	14%
Consumer Staples	11%	9%
Industrials	11%	9%
Consumer Discretionary	11%	10%
Energy	9%	13%
Materials	4%	6%
Utilities	3%	1%
Telecommunication Services	2%	1%
	100%	100%

* In order to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the market, the Fund invests in futures contracts.

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 5.

Following the Fund'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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management Team

Robert Wang

Russell Shtern, CFA

Portfolio Managers, QS Investors, LLC, Subadvisor to the Fund

Investment Portfolio

June 30, 2012 (Unaudited)

	Shares	Value ($)
Common Stocks 98.4%		
Consumer Discretionary 10.5%		
Auto Components 0.1%		
Lear Corp.	2,200	**83,006**
Diversified Consumer Services 0.3%		
Coinstar, Inc.* (a)	7,000	**480,620**
Hotels, Restaurants & Leisure 0.6%		
Brinker International, Inc.	17,800	567,286
MGM Resorts International* (a)	26,600	296,856
Starbucks Corp. (a)	5,000	266,600
		1,130,742
Household Durables 0.8%		
Sony Corp. (ADR)	34,200	487,008
Whirlpool Corp.	16,600	1,015,256
		1,502,264
Media 2.8%		
CBS Corp. "B" (a)	11,200	367,136
Charter Communications, Inc. "A"*	2,400	170,088
Comcast Corp. "A"	18,700	597,839
Comcast Corp., Special "A"	20,200	634,280
DISH Network Corp. "A"	6,600	188,430
Gannett Co., Inc.	26,700	393,291
Lions Gate Entertainment Corp.* (a)	47,500	700,150
Omnicom Group, Inc. (a)	16,900	821,340
Regal Entertainment Group "A" (a)	14,900	205,024
Time Warner Cable, Inc. (a)	3,800	311,980
Time Warner, Inc.	12,400	477,400
Viacom, Inc. "B"	4,100	192,782
		5,059,740
Multiline Retail 1.8%		
Dillard's, Inc. "A" (a)	17,615	1,121,723
Macy's, Inc.	44,600	1,532,010
Sears Holdings Corp.* (a)	9,600	573,120
		3,226,853
Specialty Retail 4.0%		
Aaron's, Inc. (a)	20,500	580,355
Best Buy Co., Inc. (a)	96,700	2,026,832
Home Depot, Inc. (a)	25,000	1,324,750
Ross Stores, Inc.	7,700	481,019
The Gap, Inc. (a)	66,500	1,819,440
TJX Companies, Inc. (a)	23,200	995,976
		7,228,372
Textiles, Apparel & Luxury Goods 0.1%		
Carter's, Inc.*	3,200	**168,320**
Consumer Staples 10.7%		
Beverages 0.5%		
Monster Beverage Corp.*	11,600	**825,920**
Food & Staples Retailing 2.9%		
CVS Caremark Corp. (a)	61,700	2,883,241
Kroger Co.	51,700	1,198,923
Safeway, Inc.	27,800	504,570
Whole Foods Market, Inc. (a)	6,900	657,708
		5,244,442
Food Products 2.7%		
Archer-Daniels-Midland Co.	57,900	1,709,208
Bunge Ltd.	3,000	188,220
Dean Foods Co.* (a)	66,300	1,129,089
Kraft Foods, Inc. "A"	11,300	436,406
The Hershey Co. (a)	6,800	489,804
Tyson Foods, Inc. "A" (a)	52,700	992,341
		4,945,068
Household Products 0.9%		
Church & Dwight Co., Inc.	2,600	144,222
Clorox Co.	2,400	173,904
Kimberly-Clark Corp.	6,600	552,882
Procter & Gamble Co.	12,000	735,000
		1,606,008
Personal Products 0.5%		
Herbalife Ltd. (a)	10,500	507,465
Nu Skin Enterprises, Inc. "A" (a)	7,800	365,820
		873,285
Tobacco 3.2%		
Altria Group, Inc.	38,600	1,333,630
Lorillard, Inc.	6,200	818,090
Philip Morris International, Inc.	42,400	3,699,824
		5,851,544
Energy 9.3%		
Energy Equipment & Services 1.2%		
Helix Energy Solutions Group, Inc.*	31,200	511,992
Transocean Ltd.	31,700	1,417,941
Weatherford International Ltd.*	15,500	195,765
		2,125,698
Oil, Gas & Consumable Fuels 8.1%		
Cheniere Energy, Inc.* (a)	32,800	483,472
Chevron Corp.	16,500	1,740,750
Cobalt International Energy, Inc.*	4,500	105,750
CVR Energy, Inc.*	7,400	196,692
Energy XXI (Bermuda) Ltd. (a)	5,300	165,837
Exxon Mobil Corp.	3,500	299,495
HollyFrontier Corp. (a)	35,300	1,250,679
Marathon Oil Corp.	35,400	905,178
Marathon Petroleum Corp. (a)	47,200	2,120,224
Murphy Oil Corp. (a)	11,200	563,248
Statoil ASA (ADR) (a)	43,900	1,047,454
Sunoco, Inc. (a)	10,600	503,500
Tesoro Corp.*	85,500	2,134,080
Valero Energy Corp.	69,000	1,666,350
Western Refining, Inc. (a)	65,900	1,467,593
		14,650,302
Financials 16.6%		
Capital Markets 0.5%		
State Street Corp.	22,200	**991,008**
Commercial Banks 3.7%		
KeyCorp	79,600	616,104
Regions Financial Corp.	356,500	2,406,375
SunTrust Banks, Inc.	61,800	1,497,414
Susquehanna Bancshares, Inc.	10,800	111,240
Wells Fargo & Co. (a)	31,400	1,050,016
Zions Bancorp. (a)	54,100	1,050,622
		6,731,771

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

	Shares	Value ($)
Consumer Finance 3.3%		
American Express Co. (a)	23,900	1,391,219
Capital One Financial Corp.	43,400	2,372,244
Discover Financial Services	63,400	2,192,372
		5,955,835
Diversified Financial Services 1.5%		
Bank of America Corp.	95,000	777,100
Citigroup, Inc. (a)	46,800	1,282,788
JPMorgan Chase & Co.	15,800	564,534
Moody's Corp. (a)	2,800	102,340
		2,726,762
Insurance 5.0%		
ACE Ltd.	33,300	2,468,529
Aflac, Inc.	4,000	170,360
Allied World Assurance Co. Holdings AG	4,200	333,774
Allstate Corp.	62,200	2,182,598
American International Group, Inc.* (a)	41,900	1,344,571
Chubb Corp. (a)	15,200	1,106,864
Fidelity National Financial, Inc. "A"	5,000	96,300
Loews Corp. (a)	10,300	421,373
MetLife, Inc.	12,600	388,710
PartnerRe Ltd.	2,500	189,175
RenaissanceRe Holdings Ltd.	1,700	129,217
XL Group PLC	7,300	153,592
		8,985,063
Real Estate Investment Trusts 2.6%		
American Capital Agency Corp. (REIT) (a)	63,500	2,134,235
Brandywine Realty Trust (REIT)	9,300	114,762
CBL & Associates Properties, Inc. (REIT)	25,500	498,270
Hospitality Properties Trust (REIT)	9,200	227,884
Taubman Centers, Inc. (REIT)	8,500	655,860
Weyerhaeuser Co. (REIT)	44,600	997,256
		4,628,267
Health Care 14.7%		
Biotechnology 1.4%		
Amgen, Inc. (a)	20,500	1,497,320
Amylin Pharmaceuticals, Inc.* (a)	23,400	660,582
Regeneron Pharmaceuticals, Inc.*	3,200	365,504
		2,523,406
Health Care Providers & Services 6.6%		
Aetna, Inc.	8,400	325,668
AmerisourceBergen Corp.	14,700	578,445
Cardinal Health, Inc.	16,100	676,200
Community Health Systems, Inc.*	6,540	183,316
Humana, Inc.	35,600	2,756,864
McKesson Corp.	4,800	450,000
UnitedHealth Group, Inc.	57,200	3,346,200
WellCare Health Plans, Inc.*	16,900	895,700
WellPoint, Inc. (a)	41,900	2,672,801
		11,885,194
Pharmaceuticals 6.7%		
Abbott Laboratories (a)	58,500	3,771,495
AstraZeneca PLC (ADR) (a)	10,300	460,925
Bristol-Myers Squibb Co.	23,200	834,040
Eli Lilly & Co. (a)	71,700	3,076,647
Forest Laboratories, Inc.*	16,900	591,331
Johnson & Johnson	4,500	304,020
Merck & Co., Inc. (a)	44,500	1,857,875
Par Pharmaceutical Companies, Inc.*	4,200	151,788
Pfizer, Inc.	46,900	1,078,700
		12,126,821
Industrials 10.5%		
Aerospace & Defense 2.6%		
Boeing Co.	4,000	297,200
Honeywell International, Inc. (a)	20,600	1,150,304
Lockheed Martin Corp. (a)	2,600	226,408
Northrop Grumman Corp. (a)	35,800	2,283,682
Raytheon Co.	14,700	831,873
		4,789,467
Airlines 2.9%		
Alaska Air Group, Inc.*	17,900	642,610
Delta Air Lines, Inc.* (a)	125,200	1,370,940
Southwest Airlines Co.	49,200	453,624
U.S. Airways Group, Inc.* (a)	128,000	1,706,240
United Continental Holdings, Inc.* (a)	44,200	1,075,386
		5,248,800
Building Products 0.4%		
Masco Corp. (a)	9,300	128,991
USG Corp.* (a)	33,200	632,460
		761,451
Construction & Engineering 0.6%		
Chicago Bridge & Iron Co. NV	6,700	254,332
Quanta Services, Inc.*	8,900	214,223
URS Corp.	17,600	613,888
		1,082,443
Electrical Equipment 0.1%		
General Cable Corp.*	3,900	**101,166**
Industrial Conglomerates 1.4%		
General Electric Co.	52,700	1,098,268
Koninklijke Philips Electronics NV	15,000	295,050
Tyco International Ltd.	20,100	1,062,285
		2,455,603
Machinery 1.5%		
AGCO Corp.*	15,000	685,950
Caterpillar, Inc.	5,900	500,969
Ingersoll-Rand PLC	25,500	1,075,590
ITT Corp. (a)	6,800	119,680
Oshkosh Corp.*	17,100	358,245
		2,740,434
Professional Services 0.1%		
Robert Half International, Inc. (a)	5,400	**154,278**
Road & Rail 0.3%		
Avis Budget Group, Inc.*	10,100	153,520
Con-way, Inc. (a)	11,400	411,654
		565,174
Trading Companies & Distributors 0.6%		
United Rentals, Inc.*	31,400	**1,068,856**
Information Technology 16.7%		
Communications Equipment 0.7%		
Brocade Communications Systems, Inc.*	23,700	116,841
Cisco Systems, Inc.	66,700	1,145,239
		1,262,080

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

	Shares	Value ($)
Computers & Peripherals 4.9%		
Apple, Inc.*	7,700	4,496,800
Dell, Inc.* (a)	124,700	1,561,244
Lexmark International, Inc. "A" (a)	6,000	159,480
Seagate Technology PLC	24,900	615,777
Western Digital Corp.*	67,800	2,066,544
		8,899,845
Electronic Equipment, Instruments & Components 0.5%		
Avnet, Inc.*	4,200	129,612
Flextronics International Ltd.*	23,600	146,320
Tech Data Corp.*	5,100	245,667
Vishay Intertechnology, Inc.* (a)	46,600	439,438
		961,037
Internet Software & Services 2.3%		
AOL, Inc.* (a)	40,600	1,140,048
Google, Inc. "A"*	1,900	1,102,133
IAC/InterActiveCorp.	35,100	1,600,560
Yahoo!, Inc.*	16,800	265,944
		4,108,685
IT Services 3.4%		
Alliance Data Systems Corp.*	3,800	513,000
Computer Sciences Corp.	7,160	177,711
Fiserv, Inc.*	7,400	534,428
International Business Machines Corp.	2,600	508,508
Lender Processing Services, Inc.	8,700	219,936
MasterCard, Inc. "A"	7,000	3,010,770
Total System Services, Inc.	6,000	143,580
Visa, Inc. "A" (a)	8,000	989,040
		6,096,973
Semiconductors & Semiconductor Equipment 2.5%		
Advanced Micro Devices, Inc.* (a)	113,600	650,928
First Solar, Inc.* (a)	25,100	378,006
Intel Corp.	56,500	1,505,725
KLA-Tencor Corp.	14,500	714,125
Kulicke & Soffa Industries, Inc.*	26,600	237,272
Micron Technology, Inc.* (a)	133,629	843,199
Teradyne, Inc.* (a)	12,400	174,344
		4,503,599
Software 2.4%		
Microsoft Corp.	123,700	3,783,983
Solarwinds, Inc.*	13,100	570,636
		4,354,619
Materials 3.9%		
Chemicals 2.3%		
CF Industries Holdings, Inc.	12,600	2,441,124
Georgia Gulf Corp.	3,600	92,412
PPG Industries, Inc.	11,400	1,209,768
Valspar Corp.	7,200	377,928
		4,121,232
Construction Materials 0.3%		
Cemex SAB de CV (ADR) (a)	74,668	**502,516**
Metals & Mining 0.6%		
Kinross Gold Corp.	57,900	471,885
Ternium SA (ADR)	16,300	318,991
Yamana Gold, Inc. (a)	22,700	349,580
		1,140,456
Paper & Forest Products 0.7%		
Domtar Corp. (a)	14,900	1,142,979
Louisiana-Pacific Corp.* (a)	12,000	130,560
		1,273,539
Telecommunication Services 2.2%		
Diversified Telecommunication Services 1.9%		
Verizon Communications, Inc. (a)	75,100	**3,337,444**
Wireless Telecommunication Services 0.3%		
China Mobile Ltd. (ADR) (a)	11,400	**623,238**
Utilities 3.3%		
Electric Utilities 0.7%		
Edison International (a)	18,200	840,840
NV Energy, Inc.	24,300	427,194
		1,268,034
Independent Power Producers & Energy Traders 1.0%		
Calpine Corp.*	69,100	1,140,841
NRG Energy, Inc.*	34,400	597,184
		1,738,025
Multi-Utilities 1.6%		
Ameren Corp.	21,600	724,464
Consolidated Edison, Inc.	13,200	820,908
DTE Energy Co.	4,400	261,052
PG&E Corp.	19,000	860,130
Sempra Energy	2,700	185,976
		2,852,530
Total Common Stocks (Cost $160,072,713)		**177,567,835**

Securities Lending Collateral 33.6%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.24% (b) (c) (Cost $60,616,503)	60,616,503	**60,616,503**

Cash Equivalents 1.4%

	Shares	Value ($)
Central Cash Management Fund, 0.14% (b) (Cost $2,523,492)	2,523,492	**2,523,492**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $223,212,708)†	133.4	**240,707,830**
Other Assets and Liabilities, Net (a)	(33.4)	**(60,290,504)**
Net Assets	100.0	**180,417,326**

* Non-income producing security.

† The cost for federal income tax purposes was $224,213,360. At June 30, 2012, net unrealized appreciation for all securities based on tax cost was $16,494,470. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $20,224,172 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,729,702.

(a) All or a portion of these securities were on loan amounting to $56,032,699. In addition, included in other assets and liabilities, net are pending sales, amounting to $4,335,663, that are also on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2012 amounted to $60,368,362, which is 33.5% of net assets.

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

(b) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(c) Represents collateral held in connection with securities lending. Income earned by the Fund is net of borrower rebates.

ADR: American Depositary Receipt

REIT: Real Estate Investment Trust

At June 30, 2012, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
S&P 500 E-Mini Index	USD	9/21/2012	42	2,848,440	**74,240**

Currency Abbreviation	
USD	United States Dollar

For information on the Fund's policy and additional disclosures regarding futures contracts, please refer to the Derivatives section of Note B in the accompanying Notes to Financial Statements.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2012 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks (d)	$177,567,835	$ —	$ —	$177,567,835
Short-Term Investments (d)	63,139,995	—	—	63,139,995
Derivatives (e)	74,240	—	—	74,240
Total	**$240,782,070**	**$ —**	**$ —**	**$240,782,070**

There have been no transfers between Level 1 and Level 2 fair value measurements during the period ended June 30, 2012.

(d) See Investment Portfolio for additional detailed categorizations.

(e) Derivatives include unrealized appreciation (depreciation) on open futures contracts.

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

Statement of Assets and Liabilities

as of June 30, 2012 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $160,072,713) — including $56,032,699 of securities loaned	$	177,567,835
Investment in Daily Assets Fund Institutional (cost $60,616,503)*		60,616,503
Investment in Central Cash Management Fund (cost $2,523,492)		2,523,492
Total investments in securities, at value (cost $223,212,708)		240,707,830
Cash		4,290
Receivable for investment sold		15,631,492
Deposits with broker for futures contracts		211,935
Receivable for Fund shares sold		62,678
Dividends receivable		206,805
Interest receivable		8,638
Receivable for variation margin on futures contracts		74,240
Foreign taxes recoverable		2,113
Other assets		668
Total assets		256,910,689
Liabilities		
Payable upon return of securities loaned		60,616,503
Payable for investments purchased		15,682,354
Payable for Fund shares redeemed		46,611
Accrued management fee		57,200
Accrued Trustees' fees		524
Other accrued expenses and payables		90,171
Total liabilities		76,493,363
Net assets, at value	**$**	**180,417,326**
Net Assets Consist of		
Undistributed net investment income		783,794
Net unrealized appreciation (depreciation) on:		
Investments		17,495,122
Futures		74,240
Accumulated net realized gain (loss)		(39,247,284)
Paid-in capital		201,311,454
Net assets, at value	**$**	**180,417,326**
Class A		
Net Asset Value, offering and redemption price per share ($178,809,175 ÷ 22,875,976 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**7.82**
Class B		
Net Asset Value, offering and redemption price per share ($1,608,151 ÷ 205,787 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**7.81**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2012 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $646)	$	1,162,506
Income distributions — Central Cash Management Fund		573
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		34,223
Total income		1,197,302
Expenses:		
Management fee		237,688
Administration fee		60,667
Services to shareholders		1,346
Distribution service fee (Class B)		2,053
Custodian fee		10,796
Audit fees		20,980
Legal fees		3,272
Reports to shareholders		23,646
Trustees' fees and expenses		4,473
Other		3,303
Total expenses		368,224
Net investment income		**829,078**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		2,657,310
Futures		135,892
Foreign currency		68
		2,793,270
Change in net unrealized appreciation (depreciation) on:		
Investments		(3,027,349)
Futures		51,507
Foreign currency		(18)
		(2,975,860)
Net gain (loss)		**(182,590)**
Net increase (decrease) in net assets resulting from operations	**$**	**646,488**

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, 2012 (Unaudited)	Year Ended December 31, 2011
Operations:		
Net investment income	$ 829,078	$ 1,190,417
Net realized gain (loss)	2,793,270	5,787,003
Change in net unrealized appreciation (depreciation)	(2,975,860)	(6,735,551)
Net increase (decrease) in net assets resulting from operations	646,488	241,869
Distributions to shareholders from:		
Net investment income:		
Class A	(1,157,831)	(1,231,321)
Class B	(17,067)	(19,225)
Total distributions	(1,174,898)	(1,250,546)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,542,581	6,626,996
Net assets acquired in tax free reorganization*	103,303,156	—
Reinvestment of distributions	1,157,831	1,231,321
Payments for shares redeemed	(14,066,392)	(19,720,206)
Net increase (decrease) in net assets from Class A share transactions	93,937,176	(11,861,889)
Class B		
Proceeds from shares sold	17,398	79,702
Net assets acquired in tax free reorganization*	34,921	—
Reinvestment of distributions	17,067	19,225
Payments for shares redeemed	(139,304)	(429,706)
Net increase (decrease) in net assets from Class B share transactions	(69,918)	(330,779)
Increase (decrease) in net assets	93,338,848	(13,201,345)
Net assets at beginning of period	87,078,478	100,279,823
Net assets at end of period (including undistributed net investment income of $783,794 and $1,129,614, respectively)	**$ 180,417,326**	**$ 87,078,478**

Other Information		
Class A		
Shares outstanding at beginning of period	11,456,872	13,004,152
Shares sold	446,721	857,669
Shares issued in tax free reorganization*	12,597,547	—
Shares issued to shareholders in reinvestment of distributions	141,027	148,352
Shares redeemed	(1,766,191)	(2,553,301)
Net increase (decrease) in Class A shares	11,419,104	(1,547,280)
Shares outstanding at end of period	**22,875,976**	**11,456,872**
Class B		
Shares outstanding at beginning of period	214,502	256,466
Shares sold	2,249	10,552
Shares issued in tax free reorganization*	4,259	—
Shares issued to shareholders in reinvestment of distributions	2,076	2,316
Shares redeemed	(17,299)	(54,832)
Net increase (decrease) in Class B shares	(8,715)	(41,964)
Shares outstanding at end of period	**205,787**	**214,502**

* On April 30, 2012, DWS Blue Chip VIP was acquired by the Fund through a tax-free reorganization (see Note G).

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

Financial Highlights

Class A

	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$ 7.46**	**$ 7.56**	**$ 6.71**	**$ 5.12**	**$10.81**	**$10.94**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.05	.10	.09	.10	.10	.13
Net realized and unrealized gain (loss)	.42[c]	(.10)	.87	1.61	(3.45)	.02
Total from investment operations	.47	.00	.96	1.71	(3.35)	.15
Less distributions from:						
Net investment income	(.11)	(.10)	(.11)	(.12)	(.18)	(.13)
Net realized gains	—	—	—	—	(2.16)	(.15)
Total distributions	(.11)	(.10)	(.11)	(.12)	(2.34)	(.28)
Net asset value, end of period	**$ 7.82**	**$ 7.46**	**$ 7.56**	**$ 6.71**	**$ 5.12**	**$10.81**
Total Return (%)	6.17**	(.14)	14.40[b]	34.15[b]	(38.31)[b]	1.36[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	179	85	98	101	94	196
Ratio of expenses before expense reductions (%)	.60*	.63	.63	.63	.60	.57
Ratio of expenses after expense reductions (%)	.60*	.63	.60	.54	.54	.56
Ratio of net investment income (loss) (%)	1.37*	1.25	1.32	1.74	1.34	1.18
Portfolio turnover rate (%)	149**	215	145	82	130	310

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

c Because of the timing of subscriptions and redemptions in relation to fluctuating markets at value, the amount shown may not agree with the change in aggregate gains and losses.

* Annualized

** Not annualized

Class B

	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$ 7.45**	**$ 7.55**	**$ 6.70**	**$ 5.12**	**$10.77**	**$10.90**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.04	.08	.07	.08	.08	.09
Net realized and unrealized gain (loss)	.40[c]	(.10)	.87	1.60	(3.42)	.02
Total from investment operations	.44	(.02)	.94	1.68	(3.34)	.11
Less distributions from:						
Net investment income	(.08)	(.08)	(.09)	(.10)	(.15)	(.09)
Net realized gains	—	—	—	—	(2.16)	(.15)
Total distributions	(.08)	(.08)	(.09)	(.10)	(2.31)	(.24)
Net asset value, end of period	**$ 7.81**	**$ 7.45**	**$ 7.55**	**$ 6.70**	**$ 5.12**	**$10.77**
Total Return (%)	5.91**	(.40)	14.12[b]	33.64[b]	(38.29)[b]	1.00[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	2	2	2	2	2	15
Ratio of expenses before expense reductions (%)	.86*	.88	.88	.89	.82	.95
Ratio of expenses after expense reductions (%)	.86*	.88	.85	.80	.77	.92
Ratio of net investment income (loss) (%)	.98*	.99	1.07	1.48	1.12	.82
Portfolio turnover rate (%)	149**	215	145	82	130	310

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

c Because of the timing of subscriptions and redemptions in relation to fluctuating markets at value, the amount shown may not agree with the change in aggregate gains and losses.

* Annualized

** Not annualized

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

DWS 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 five diversified funds: DWS Bond VIP, DWS Core Equity VIP (formerly DWS Growth & Income VIP),, DWS Capital Growth VIP, DWS Global Small Cap Growth VIP and DWS International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on DWS Core Equity VIP. 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"). Effective as of the close of business on May 1, 2012, the Fund changed its name to "DWS Core Equity VIP."

Multiple Classes of Shares of Beneficial Interest. The Fund offers two classes of shares (Class A shares and Class B shares). Class B shares are subject to Rule 12b-1 distribution fees under the 1940 Act and recordkeeping 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 Fund. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain fund-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 fees and recordkeeping 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 Fund'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 Fund in the preparation of its financial statements.

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.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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.

Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Futures contracts are generally valued at the settlement prices established each day on the exchange on which they are traded and are categorized as Level 1.

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 and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the issuer of securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. 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 acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. 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 gain/appreciation and loss/depreciation on investments.

Federal Income Taxes. The Fund is treated as a separate taxpayer as provided for in the Internal Revenue Code, as amended. It is the Fund's policy 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 income to the separate accounts of the Participating Insurance Companies which hold its shares.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $40,840,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($11,719,000) and December 31, 2017 ($29,121,000), the respective expiration dates, whichever occurs first.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. The Fund will declare and distribute dividends from its net investment income, if any, annually, 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 Fund if not distributed, and, therefore, will be distributed to shareholders at least annually.

The timing and characterization of certain income and capital gain 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 futures contracts 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 Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

The tax character of current year distributions will be determined at the end of the current fiscal year.

Expenses. Expenses of the Series arising in connection with a specific Fund are allocated to that Fund. Other Series expenses which cannot be directly attributed to a Fund are apportioned among the Funds in the Series.

Contingencies. In the normal course of business, the Fund may enter into contracts with service providers that contain general 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 been made. However, based on experience, the Fund expects 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. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Derivative Instruments

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). For the six months ended June 30, 2012, the Fund entered into futures contracts in circumstances where portfolio management believed they offered an economic means of gaining exposure to a particular asset class or to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the market.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts disclosed in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of June 30, 2012, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $631,000 to $2,848,000.

The following table summarizes the value of the Fund's derivative instruments held as of June 30, 2012 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivative	Futures Contracts
Equity Contracts (a)	$ 74,240

The above derivative is located in the following Statement of Assets and Liabilities account:

(a) Includes cumulative appreciation of futures contracts as disclosed in the Investment Portfolio. Unsettled variation margin is disclosed separately within the Statement of Assets and Liabilities.

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2012 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	Futures Contracts
Equity Contracts (a)	$ 135,892

The above derivative is located in the following Statement of Operations account:

(a) Net realized gain (loss) from futures

Change in Net Unrealized Appreciation (Depreciation)	Futures Contracts
Equity Contracts (a)	$ 51,507

The above derivative is located in the following Statement of Operations account:

(a) Change in net unrealized appreciation (depreciation) on futures

C. Purchases and Sales of Securities

During the six months ended June 30, 2012, purchases and sales of investment securities (excluding short-term investments) aggregated $192,955,817 and $203,408,219, respectively.

D. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund 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 Fund or delegates such responsibility to the Fund's subadvisor.

QS Investors, LLC ("QS Investors") serves as subadvisor. As a subadvisor to the Fund, QS Investors makes investment decisions and buys and sells securities for the Fund. QS Investors is paid by the Advisor for the services QS Investors provides to the Fund.

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays a monthly management fee based on the Fund's average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

First $250 million of average daily net assets	.390%
Next $750 million of average daily net assets	.365%
Over $1 billion of average daily net assets	.340%

Accordingly, for the six months ended June 30, 2012, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate of 0.39% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays the Advisor an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the six months ended June 30, 2012, the Administration Fee was $60,667, of which $14,667 is unpaid.

Service Provider Fees. DWS Investments Service Company ("DISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2012, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at June 30, 2012**
Class A	$ 239	$ 73
Class B	40	13
	$ 279	**$ 86**

Distribution Service Agreement. DWS Investments Distributors, Inc. ("DIDI"), also an affiliate of the Advisor, is the Series' Distributor. In accordance with the Master Distribution Plan, DIDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, DIDI 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. For the six months ended June 30, 2012, the Distribution Service Fee aggregated $2,053, of which $481 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2012, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $10,584, of which $847 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

E. Ownership of the Fund

Two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 40% and 35%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $375 million revolving credit facility provided by a syndication of banks. The Fund may borrow 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 on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at June 30, 2012.

G. Acquisition of Assets

On April 30, 2012, the Fund acquired all of the net assets of DWS Blue Chip VIP pursuant to a plan of reorganization approved by the Board of Trustees on November 18, 2011. The acquisition was accomplished by a tax-free exchange of 8,967,004 Class A shares and 3,018 Class B shares of DWS Blue Chip VIP for 12,597,547 Class A shares and 4,259 Class B shares of the Fund, respectively, outstanding on April 30, 2012. DWS Blue Chip VIP's net assets at that date, $103,338,077, including $13,470,096 of net unrealized appreciation, were combined with those of the Fund. The aggregate net assets of the Fund immediately before the acquisition were $92,542,116. The combined net assets of the Fund immediately following the acquisition were $195,880,193.

The financial statements reflect the operations of the Fund for the period prior to the acquisition and the combined portfolio for the period subsequent to the portfolio merger. Assuming the acquisition had been completed on January 1, 2012, the Fund's pro forma results of operations for the six months ended June 30, 2012, are as follows:

	Total Aggregated
Net investment income*	$ 1,156,196
Net gain (loss) on investments	$ 10,147,493
Net increase (decrease) in net assets resulting from operations	$ 11,303,689

* Net investment income includes $51,419 of pro forma eliminated expenses.

Because the combined investment portfolio has been managed as a single integrated Fund since the acquisition was completed, it is not practicable to separate the amounts of revenue and earnings of DWS Blue Chip VIP that have been included in the Fund's Statement of Operations since April 30, 2012.

Information About Your Fund's Expenses

(Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (January 1, 2012 to June 30, 2012).

The tables illustrate your Fund's expenses in two ways:

- **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund'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% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund'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. 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, 2012

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/12	$1,000.00	$1,000.00
Ending Account Value 6/30/12	$1,061.70	$1,059.10
Expenses Paid per $1,000*	$ 3.08	$ 4.40
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 1/1/12	$1,000.00	$1,000.00
Ending Account Value 6/30/12	$1,021.88	$1,020.59
Expenses Paid per $1,000*	$ 3.02	$ 4.32

* Expenses are equal to the Fund's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by 182 (the number of days in the most recent six-month period), then divided by 366.

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series I — DWS Core Equity VIP	.60%	.86%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

Proxy Voting

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 are available on our Web site — www.dws-investments.com (click on "proxy voting" at the bottom of the page) — 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) 728-3337.

Summary of Management Fee Evaluation by Independent Fee Consultant

September 26, 2011

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds (formerly the DWS Scudder Funds). My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2011, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007, 2008, 2009 and 2010.

Qualifications

For more than 35 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past ten years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds and have served in various leadership and financial oversight capacities with non-profit organizations.

Evaluation of Fees for each DWS Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 109 mutual fund portfolios in the DWS Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

- The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.
- The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

DeAM's Fees for Similar Services to Others

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Fund. These similar products included the other DWS Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

Costs and Profit Margins

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

Economies of Scale

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Fund compares with this industry observation, I reviewed:

- The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.
- Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.
- How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

Quality of Service — Performance

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

Complex-Level Considerations

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

- I reviewed DeAM's profitability analysis for all DWS Funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.
- I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.
- I considered how aggregated DWS Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.
- I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

Findings

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Funds are reasonable.

Thomas H. Mack
President, Thomas H. Mack & Co., Inc.

Notes

DWS Investments Distributors, Inc.
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Chicago, IL 60606
(800) 621-1148

VS1coreq-3 (R-028376-1 8/12)

JUNE 30, 2012

SEMIANNUAL REPORT

DWS VARIABLE SERIES II

DWS High Income VIP

Contents

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus or summary prospectus, if available, call (800) 728-3337 or your financial representative. We advise you to consider the Fund's objectives, risks, charges and expenses carefully before investing. The summary prospectus and prospectus contain this and other important information about the Fund. Please read the prospectus carefully before you invest.

Bond investments are subject to interest-rate and credit risks. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. The Fund may lend securities to approved institutions. See the prospectus for details.

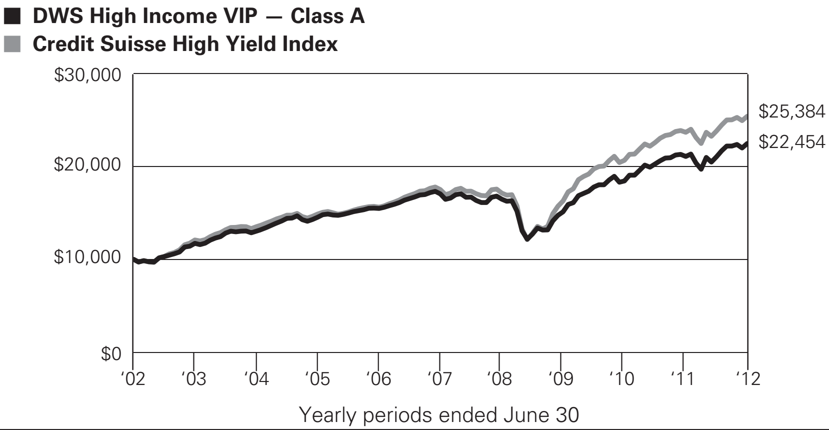
Performance Summary

June 30, 2012 (Unaudited)

Fund 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 contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2012 are 0.72% and 0.99% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment in DWS High Income VIP



The Credit Suisse High Yield Index is an unmanaged, trader-priced portfolio constructed to mirror the global high-yield debt market.

Index returns do not reflect any fees or expenses and it is not possible to invest directly into an index.

Comparative Results

DWS High Income VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,679	$10,663	$14,865	$13,189	$22,454
	Average annual total return	6.79%	6.63%	14.13%	5.69%	8.43%
Credit Suisse High Yield Index	Growth of $10,000	$10,666	$10,730	$15,604	$14,510	$25,384
	Average annual total return	6.66%	7.30%	15.99%	7.73%	9.76%

DWS High Income VIP		6-Month‡	1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$10,663	$10,631	$14,746	$13,014	$21,709
	Average annual total return	6.63%	6.31%	13.82%	5.41%	8.06%
Credit Suisse High Yield Index	Growth of $10,000	$10,666	$10,730	$15,604	$14,510	$25,384
	Average annual total return	6.66%	7.30%	15.99%	7.73%	9.76%

The growth of $10,000 is cumulative.

‡ Total returns shown for periods less than one year are not annualized.

* The Fund commenced offering Class B shares on July 1, 2002. The performance shown for the index is for the time period of June 30, 2002 through June 30, 2012, which is based on the performance period of the life of the class.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/12**	**12/31/11**
Corporate Bonds	95%	90%
Cash Equivalents	3%	8%
Preferred Securities	1%	0%
Loan Participations and Assignments	1%	1%
Government & Agency Obligations	—	1%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Government & Agency Obligations, Cash Equivalents and Securities Lending Collateral)	**6/30/12**	**12/31/11**
Consumer Discretionary	23%	22%
Financials	16%	15%
Telecommunication Services	13%	14%
Energy	13%	12%
Materials	12%	12%
Industrials	8%	10%
Information Technology	5%	5%
Health Care	4%	3%
Consumer Staples	3%	4%
Utilities	3%	3%
	100%	100%

Quality (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/12**	**12/31/11**
AAA	—	1%
BBB	2%	3%
BB	31%	32%
B	54%	52%
CCC	11%	11%
Not Rated	2%	1%
	100%	100%

The quality ratings represent the higher 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. Credit quality measures a bond issuer's ability to repay interest and principal in a timely manner. Ratings are relative and subjective and are not absolute standards of quality. Credit quality does not remove market risk and is subject to change.

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 5.

Following the Fund'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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management

Gary Russell, CFA

Portfolio Manager

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 93.2%		
Consumer Discretionary 20.9%		
AMC Entertainment, Inc., 8.75%, 6/1/2019	765,000	820,462
AMC Networks, Inc., 144A, 7.75%, 7/15/2021	80,000	88,200
American Achievement Corp., 144A, 10.875%, 4/15/2016	260,000	189,150
Asbury Automotive Group, Inc.:		
7.625%, 3/15/2017	590,000	610,650
8.375%, 11/15/2020	460,000	501,400
Avis Budget Car Rental LLC:		
8.25%, 1/15/2019 (b)	535,000	573,787
9.625%, 3/15/2018	260,000	284,700
Beazer Homes U.S.A., Inc., 9.125%, 6/15/2018	135,000	119,138
Block Communications, Inc., 144A, 7.25%, 2/1/2020	375,000	380,625
Cablevision Systems Corp.:		
7.75%, 4/15/2018	65,000	69,225
8.0%, 4/15/2020	65,000	70,200
Caesar's Entertainment Operating Co., Inc.:		
144A, 8.5%, 2/15/2020	760,000	765,700
10.0%, 12/15/2018	450,000	307,688
11.25%, 6/1/2017	715,000	780,244
Carlson Wagonlit BV, 144A, 6.875%, 6/15/2019	215,000	220,375
CCO Holdings LLC:		
6.5%, 4/30/2021	1,155,000	1,230,075
6.625%, 1/31/2022	450,000	481,500
7.0%, 1/15/2019	120,000	129,600
7.25%, 10/30/2017	520,000	566,800
7.375%, 6/1/2020	50,000	54,938
7.875%, 4/30/2018	225,000	244,688
8.125%, 4/30/2020	150,000	167,250
Cequel Communications Holdings I LLC, 144A, 8.625%, 11/15/2017	1,725,000	1,858,687
Chester Downs & Marina LLC, 144A, 9.25%, 2/1/2020	145,000	151,163
Clear Channel Communications, Inc., 9.0%, 3/1/2021	140,000	121,800
Clear Channel Worldwide Holdings, Inc.:		
144A, 7.625%, 3/15/2020	1,225,000	1,195,237
Series A, 9.25%, 12/15/2017	100,000	108,750
Series B, 9.25%, 12/15/2017	150,000	163,500
CSC Holdings LLC, 144A, 6.75%, 11/15/2021	1,400,000	1,491,000
Cumulus Media Holdings, Inc., 7.75%, 5/1/2019 (b)	250,000	235,625
DineEquity, Inc., 9.5%, 10/30/2018	385,000	421,575
DISH DBS Corp.:		
6.75%, 6/1/2021	50,000	54,000
7.125%, 2/1/2016	465,000	510,337
7.875%, 9/1/2019	270,000	311,175

		Principal Amount ($)(a)	Value ($)
Fontainebleau Las Vegas Holdings LLC, 144A, 11.0%, 6/15/2015*		490,000	306
Great Canadian Gaming Corp., 144A, 7.25%, 2/15/2015		505,000	511,944
Harron Communications LP, 144A, 9.125%, 4/1/2020		270,000	279,450
Hertz Corp.:			
144A, 6.75%, 4/15/2019		215,000	223,600
6.75%, 4/15/2019 (b)		90,000	93,600
7.5%, 10/15/2018		905,000	970,612
Lear Corp., 8.125%, 3/15/2020		230,000	257,600
Libbey Glass, Inc., 144A, 6.875%, 5/15/2020		130,000	133,575
Lions Gate Entertainment, Inc., 144A, 10.25%, 11/1/2016		540,000	591,300
Mediacom Broadband LLC, 8.5%, 10/15/2015 (b)		635,000	652,462
Mediacom LLC:			
7.25%, 2/15/2022		110,000	111,925
9.125%, 8/15/2019		560,000	614,600
MGM Resorts International:			
7.5%, 6/1/2016		205,000	212,175
7.625%, 1/15/2017 (b)		560,000	578,200
144A, 8.625%, 2/1/2019 (b)		840,000	898,800
9.0%, 3/15/2020		145,000	160,950
10.0%, 11/1/2016 (b)		225,000	249,188
11.125%, 11/15/2017		235,000	263,788
Michaels Stores, Inc., 13.0%, 11/1/2016 (b)		88,000	94,271
National CineMedia LLC, 144A, 6.0%, 4/15/2022		200,000	203,500
Norcraft Companies LP, 10.5%, 12/15/2015 (b)		1,260,000	1,247,400
Palace Entertainment Holdings LLC, 144A, 8.875%, 4/15/2017		435,000	454,575
Penske Automotive Group, Inc., 7.75%, 12/15/2016		730,000	757,375
PETCO Animal Supplies, Inc., 144A, 9.25%, 12/1/2018		315,000	344,138
Regal Entertainment Group, 9.125%, 8/15/2018 (b)		180,000	198,000
Sabre Holdings Corp., 8.35%, 3/15/2016		305,000	288,225
Seminole Indian Tribe of Florida:			
144A, 7.75%, 10/1/2017		200,000	218,000
144A, 7.804%, 10/1/2020		415,000	411,518
Sonic Automotive, Inc.:			
144A, 7.0%, 7/15/2022 (c)		95,000	98,325
Series B, 9.0%, 3/15/2018		565,000	614,437
Toys "R" Us-Delaware, Inc., 144A, 7.375%, 9/1/2016		200,000	198,000
Travelport LLC:			
5.092%**, 9/1/2014		390,000	248,625
9.0%, 3/1/2016 (b)		75,000	52,500
UCI International, Inc., 8.625%, 2/15/2019		120,000	120,750
Unitymedia GmbH, 144A, 9.625%, 12/1/2019	EUR	550,000	756,927

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

		Principal Amount ($)(a)	Value ($)
Unitymedia Hessen GmbH & Co., KG:			
144A, 7.5%, 3/15/2019		435,000	461,100
144A, 8.125%, 12/1/2017		1,110,000	1,193,250
Univision Communications, Inc.:			
144A, 6.875%, 5/15/2019		60,000	61,800
144A, 7.875%, 11/1/2020		140,000	149,800
UPC Holding BV:			
144A, 8.375%, 8/15/2020	EUR	480,000	628,700
144A, 9.75%, 4/15/2018	EUR	425,000	576,830
Visant Corp., 10.0%, 10/1/2017		460,000	456,550
Visteon Corp., 6.75%, 4/15/2019		435,000	423,037
Yonkers Racing Corp., 144A, 11.375%, 7/15/2016		335,000	355,938
			32,696,890
Consumer Staples 3.3%			
B&G Foods, Inc., 7.625%, 1/15/2018		230,000	247,250
Del Monte Corp., 7.625%, 2/15/2019		410,000	413,587
Dole Food Co., Inc., 144A, 8.0%, 10/1/2016		130,000	135,688
FAGE Dairy Industry SA, 144A, 9.875%, 2/1/2020		555,000	488,400
JBS U.S.A. LLC, 144A, 8.25%, 2/1/2020		160,000	155,600
NBTY, Inc., 9.0%, 10/1/2018		190,000	209,950
Pilgrim's Pride Corp., 7.875%, 12/15/2018 (b)		290,000	293,987
Smithfield Foods, Inc., 7.75%, 7/1/2017		1,880,000	2,079,750
SUPERVALU, Inc., 8.0%, 5/1/2016 (b)		210,000	212,625
Tops Holding Corp., 10.125%, 10/15/2015		330,000	350,625
TreeHouse Foods, Inc., 7.75%, 3/1/2018		125,000	135,469
U.S. Foods, Inc., 144A, 8.5%, 6/30/2019		400,000	406,000
			5,128,931
Energy 11.9%			
Alpha Natural Resources, Inc., 6.0%, 6/1/2019		345,000	294,112
Arch Coal, Inc., 7.25%, 10/1/2020 (b)		110,000	92,950
Berry Petroleum Co., 6.75%, 11/1/2020		335,000	350,075
BreitBurn Energy Partners LP, 8.625%, 10/15/2020		225,000	237,938
Chaparral Energy, Inc., 8.25%, 9/1/2021		410,000	433,575
Chesapeake Energy Corp.:			
6.125%, 2/15/2021 (b)		245,000	237,038
6.875%, 11/15/2020 (b)		560,000	551,600
Chesapeake Midstream Partners LP, 6.125%, 7/15/2022		325,000	318,500
Chesapeake Oilfield Operating LLC, 144A, 6.625%, 11/15/2019		150,000	135,000
Cimarex Energy Co., 5.875%, 5/1/2022		205,000	212,944
Cloud Peak Energy Resources LLC:			
8.25%, 12/15/2017		145,000	150,075
8.5%, 12/15/2019 (b)		150,000	155,625

	Principal Amount ($)(a)	Value ($)
CONSOL Energy, Inc.:		
6.375%, 3/1/2021	90,000	84,600
8.0%, 4/1/2017	295,000	306,062
8.25%, 4/1/2020	155,000	162,750
Continental Resources, Inc.:		
7.125%, 4/1/2021	175,000	195,125
7.375%, 10/1/2020	195,000	217,425
8.25%, 10/1/2019	105,000	117,338
Crestwood Midstream Partners LP, 7.75%, 4/1/2019	920,000	913,100
Crosstex Energy LP:		
144A, 7.125%, 6/1/2022	105,000	103,425
8.875%, 2/15/2018	365,000	385,531
Dresser-Rand Group, Inc., 6.5%, 5/1/2021	420,000	435,750
Eagle Rock Energy Partners LP, 8.375%, 6/1/2019	535,000	533,662
EP Energy LLC:		
144A, 6.875%, 5/1/2019	330,000	344,850
144A, 9.375%, 5/1/2020 (b)	150,000	155,438
EV Energy Partners LP, 8.0%, 4/15/2019	835,000	828,737
Forest Oil Corp., 7.25%, 6/15/2019	580,000	532,150
Frontier Oil Corp., 6.875%, 11/15/2018	315,000	327,600
Genesis Energy LP, 7.875%, 12/15/2018	150,000	153,750
Global Geophysical Services, Inc., 10.5%, 5/1/2017	775,000	738,187
Halcon Resources Corp., 144A, 9.75%, 7/15/2020 (c)	280,000	284,900
Holly Energy Partners LP:		
144A, 6.5%, 3/1/2020	105,000	105,788
8.25%, 3/15/2018	330,000	349,800
Kodiak Oil & Gas Corp., 144A, 8.125%, 12/1/2019	165,000	169,950
Linn Energy LLC:		
144A, 6.25%, 11/1/2019	595,000	583,100
144A, 6.5%, 5/15/2019	115,000	113,850
Magnum Hunter Resources Corp., 144A, 9.75%, 5/15/2020	170,000	164,900
MEG Energy Corp., 144A, 6.5%, 3/15/2021	235,000	239,994
Murray Energy Corp., 144A, 10.25%, 10/15/2015	170,000	149,175
Newfield Exploration Co., 7.125%, 5/15/2018	270,000	285,862
Northern Oil & Gas, Inc., 144A, 8.0%, 6/1/2020	545,000	542,275
Oasis Petroleum, Inc.:		
6.5%, 11/1/2021	175,000	173,250
7.25%, 2/1/2019	665,000	681,625
Offshore Group Investments Ltd.:		
144A, 11.5%, 8/1/2015	45,000	48,825
11.5%, 8/1/2015	305,000	330,925
Peabody Energy Corp.:		
144A, 6.0%, 11/15/2018	145,000	144,275
144A, 6.25%, 11/15/2021	165,000	163,350
Plains Exploration & Production Co.:		
6.125%, 6/15/2019	215,000	216,075
6.75%, 2/1/2022	525,000	535,500
7.625%, 6/1/2018	320,000	340,000

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

		Principal Amount ($)(a)	Value ($)
Regency Energy Partners LP, 6.875%, 12/1/2018		205,000	215,763
SandRidge Energy, Inc., 7.5%, 3/15/2021		125,000	123,438
SESI LLC, 6.375%, 5/1/2019		235,000	246,162
Swift Energy Co., 7.875%, 3/1/2022		435,000	437,175
Venoco, Inc., 8.875%, 2/15/2019		590,000	536,900
WPX Energy, Inc.:			
5.25%, 1/15/2017		960,000	972,000
6.0%, 1/15/2022		705,000	701,475
			18,561,244

Financials 14.6%

		Principal Amount ($)(a)	Value ($)
Abengoa Finance SAU, 144A, 8.875%, 11/1/2017		620,000	548,700
AerCap Aviation Solutions BV, 144A, 6.375%, 5/30/2017		470,000	472,350
Ally Financial, Inc.:			
5.5%, 2/15/2017		385,000	391,060
8.0%, 3/15/2020		340,000	391,000
8.0%, 11/1/2031		340,000	398,650
AmeriGas Finance LLC:			
6.75%, 5/20/2020		110,000	112,200
7.0%, 5/20/2022		110,000	113,300
Antero Resources Finance Corp.:			
7.25%, 8/1/2019		285,000	294,975
9.375%, 12/1/2017		390,000	430,950
AWAS Aviation Capital Ltd., 144A, 7.0%, 10/17/2016		513,600	531,576
CIT Group, Inc.:			
5.0%, 5/15/2017		385,000	396,550
5.25%, 3/15/2018		540,000	557,550
144A, 7.0%, 5/2/2017		685,281	686,566
Codere Finance Luxembourg SA, 144A, 9.25%, 2/15/2019		225,000	158,625
DuPont Fabros Technology LP, (REIT), 8.5%, 12/15/2017		435,000	478,500
E*TRADE Financial Corp., 6.75%, 6/1/2016		710,000	722,425
Fresenius Medical Care U.S. Finance II, Inc.:			
144A, 5.625%, 7/31/2019		220,000	229,350
144A, 5.875%, 1/31/2022		195,000	203,044
Fresenius U.S. Finance II, Inc., 144A, 9.0%, 7/15/2015		420,000	482,475
Hellas Telecommunications Finance SCA, 144A, 8.985%**, 7/15/2015 (PIK)*	EUR	322,107	245
Hexion U.S. Finance Corp.:			
6.625%, 4/15/2020		95,000	97,375
8.875%, 2/1/2018		2,000,000	2,040,000
International Lease Finance Corp.:			
Series R, 5.65%, 6/1/2014		340,000	348,500
5.75%, 5/15/2016		105,000	106,531
6.25%, 5/15/2019		270,000	275,063
8.625%, 9/15/2015		235,000	259,675
8.625%, 1/15/2022		310,000	359,002
8.75%, 3/15/2017		370,000	415,325
JBS Finance II Ltd., 144A, 8.25%, 1/29/2018		255,000	247,350
Level 3 Financing, Inc.:			
8.125%, 7/1/2019		670,000	687,587
8.625%, 7/15/2020 (b)		510,000	535,500
MPT Operating Partnership LP:			
(REIT), 6.375%, 2/15/2022		185,000	185,463
(REIT), 6.875%, 5/1/2021		295,000	307,538
National Money Mart Co., 10.375%, 12/15/2016		790,000	870,975
Neuberger Berman Group LLC:			
144A, 5.625%, 3/15/2020		160,000	166,800
144A, 5.875%, 3/15/2022		265,000	276,925
NII Capital Corp., 7.625%, 4/1/2021		395,000	338,712
Nuveen Investments, Inc., 10.5%, 11/15/2015		1,005,000	1,020,075
Pinnacle Foods Finance LLC:			
8.25%, 9/1/2017		425,000	449,437
9.25%, 4/1/2015		345,000	354,487
Reynolds Group Issuer, Inc.:			
144A, 6.875%, 2/15/2021		540,000	561,600
144A, 7.125%, 4/15/2019		415,000	434,712
144A, 8.25%, 2/15/2021		225,000	213,750
144A, 8.5%, 5/15/2018 (b)		455,000	445,900
144A, 9.0%, 4/15/2019		275,000	274,313
144A, 9.875%, 8/15/2019		125,000	129,688
Schaeffler Finance BV:			
144A, 7.75%, 2/15/2017		420,000	437,850
144A, 7.75%, 2/15/2017	EUR	210,000	277,076
144A, 8.5%, 2/15/2019		200,000	213,500
144A, 8.75%, 2/15/2019	EUR	100,000	134,143
UPCB Finance III Ltd., 144A, 6.625%, 7/1/2020		185,000	187,775
UPCB Finance V Ltd., 144A, 7.25%, 11/15/2021		230,000	240,350
UR Merger Sub Corp.:			
144A, 5.75%, 7/15/2018		365,000	379,600
144A, 7.375%, 5/15/2020		595,000	621,775
144A, 7.625%, 4/15/2022		595,000	623,262
Wind Acquisition Finance SA:			
144A, 7.25%, 2/15/2018		400,000	350,000
144A, 11.75%, 7/15/2017	EUR	370,000	374,588
			22,842,293

Health Care 3.6%

		Principal Amount ($)(a)	Value ($)
Aviv Healthcare Properties LP, 7.75%, 2/15/2019		500,000	515,000
HCA, Inc.:			
5.875%, 3/15/2022		275,000	287,375
6.5%, 2/15/2020		890,000	964,537
7.5%, 2/15/2022		605,000	659,450
Mylan, Inc., 144A, 7.875%, 7/15/2020		95,000	106,519
Physio-Control International, Inc., 144A, 9.875%, 1/15/2019		315,000	335,475
STHI Holding Corp., 144A, 8.0%, 3/15/2018		345,000	364,838
Tenet Healthcare Corp., 6.25%, 11/1/2018		1,805,000	1,908,787
Warner Chilcott Co., LLC, 7.75%, 9/15/2018		420,000	450,450
			5,592,431

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

		Principal Amount ($)(a)	Value ($)
Industrials 7.8%			
Accuride Corp., 9.5%, 8/1/2018 (b)		405,000	417,150
Aguila 3 SA, 144A, 7.875%, 1/31/2018		480,000	494,400
Air Lease Corp., 144A, 5.625%, 4/1/2017		445,000	438,325
Armored Autogroup, Inc., 144A, 9.5%, 11/1/2018		610,000	526,125
BakerCorp International, Inc., 144A, 8.25%, 6/1/2019		335,000	332,487
BE Aerospace, Inc., 6.875%, 10/1/2020		180,000	198,900
Belden, Inc., 7.0%, 3/15/2017		420,000	432,600
Bombardier, Inc., 144A, 5.75%, 3/15/2022		325,000	323,781
Briggs & Stratton Corp., 6.875%, 12/15/2020		195,000	208,650
Casella Waste Systems, Inc., 7.75%, 2/15/2019		415,000	408,775
Cenveo Corp., 8.875%, 2/1/2018		905,000	809,975
CHC Helicopter SA, 9.25%, 10/15/2020		540,000	527,850
Ducommun, Inc., 9.75%, 7/15/2018		305,000	321,013
DynCorp International, Inc., 10.375%, 7/1/2017		490,000	418,950
Florida East Coast Railway Corp., 8.125%, 2/1/2017		225,000	235,125
Garda World Security Corp., 144A, 9.75%, 3/15/2017		375,000	396,562
H&E Equipment Services, Inc., 8.375%, 7/15/2016		615,000	634,219
Huntington Ingalls Industries, Inc.:			
6.875%, 3/15/2018		280,000	291,900
7.125%, 3/15/2021		60,000	62,700
Interline Brands, Inc., 7.0%, 11/15/2018		295,000	306,800
Meritor, Inc., 8.125%, 9/15/2015 (b)		280,000	295,050
Navios Maritime Holdings, Inc.:			
8.125%, 2/15/2019		760,000	649,800
144A, 8.875%, 11/1/2017 (c)		210,000	210,508
Navios South American Logistics, Inc., 9.25%, 4/15/2019		295,000	271,400
Nortek, Inc., 8.5%, 4/15/2021		720,000	703,800
Ply Gem Industries, Inc., 13.125%, 7/15/2014		155,000	156,938
Sitel LLC, 11.5%, 4/1/2018		565,000	402,562
Spirit AeroSystems, Inc.:			
6.75%, 12/15/2020		205,000	223,450
7.5%, 10/1/2017		215,000	233,813
Titan International, Inc., 7.875%, 10/1/2017		945,000	973,350
Welltec A/S, 144A, 8.0%, 2/1/2019		400,000	384,000
			12,290,958
Information Technology 4.6%			
Aspect Software, Inc., 10.625%, 5/15/2017		350,000	371,000
Avaya, Inc., 144A, 7.0%, 4/1/2019		830,000	769,825
CDW LLC, 8.5%, 4/1/2019		1,180,000	1,256,700
CommScope, Inc., 144A, 8.25%, 1/15/2019		485,000	512,887
eAccess Ltd., 144A, 8.25%, 4/1/2018		335,000	304,850
Equinix, Inc.:			
7.0%, 7/15/2021		215,000	236,500
8.125%, 3/1/2018		120,000	132,900
First Data Corp.:			
144A, 7.375%, 6/15/2019		250,000	255,000
144A, 8.875%, 8/15/2020		495,000	535,837
Freescale Semiconductor, Inc., 144A, 9.25%, 4/15/2018		990,000	1,059,300
Hughes Satellite Systems Corp.:			
6.5%, 6/15/2019		225,000	239,063
7.625%, 6/15/2021 (b)		230,000	250,125
MasTec, Inc., 7.625%, 2/1/2017		610,000	632,875
Sanmina-SCI Corp., 144A, 7.0%, 5/15/2019		245,000	237,650
Sensata Technologies BV, 144A, 6.5%, 5/15/2019		290,000	299,425
ViaSat, Inc., 144A, 6.875%, 6/15/2020		50,000	50,500
			7,144,437
Materials 11.0%			
Aleris International, Inc., 7.625%, 2/15/2018		220,000	223,300
APERAM:			
144A, 7.375%, 4/1/2016		215,000	184,900
144A, 7.75%, 4/1/2018		260,000	221,000
Appleton Papers, Inc., 11.25%, 12/15/2015		237,000	252,997
Berry Plastics Corp.:			
9.5%, 5/15/2018		390,000	415,350
9.75%, 1/15/2021 (b)		460,000	500,250
Beverage Packaging Holdings Luxembourg II SA, 144A, 8.0%, 12/15/2016	EUR	630,000	749,429
BWAY Parent Co., Inc., 10.125%, 11/1/2015 (PIK)		269,981	274,031
China Lumena New Materials Corp., 144A, 12.0%, 10/27/2014		1,120,000	968,800
Clearwater Paper Corp., 7.125%, 11/1/2018		390,000	411,450
Clondalkin Acquisition BV, 144A, 2.468%**, 12/15/2013		265,000	235,850
Crown Americas LLC, 6.25%, 2/1/2021		50,000	54,625
Essar Steel Algoma, Inc.:			
144A, 9.375%, 3/15/2015		1,410,000	1,360,650
144A, 9.875%, 6/15/2015		450,000	381,375
Exopack Holding Corp., 10.0%, 6/1/2018		230,000	230,575
FMG Resources (August 2006) Pty Ltd.:			
144A, 6.0%, 4/1/2017 (b)		315,000	316,575
144A, 6.875%, 4/1/2022 (b)		225,000	226,687
144A, 7.0%, 11/1/2015 (b)		140,000	142,800
144A, 8.25%, 11/1/2019		545,000	577,700
GEO Specialty Chemicals, Inc.:			
144A, 7.5%, 3/31/2015 (PIK)		1,297,793	1,200,329
9.968%, 3/31/2015		1,277,440	1,258,662
Graphic Packaging International, Inc., 7.875%, 10/1/2018		70,000	77,000

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

		Principal Amount ($)(a)	Value ($)
Huntsman International LLC:			
8.625%, 3/15/2020		330,000	370,425
8.625%, 3/15/2021 (b)		335,000	377,712
Ineos Finance PLC, 144A, 7.5%, 5/1/2020		155,000	156,163
JMC Steel Group, 144A, 8.25%, 3/15/2018		350,000	347,375
Kaiser Aluminum Corp., 144A, 8.25%, 6/1/2020		260,000	265,200
Koppers, Inc., 7.875%, 12/1/2019		440,000	474,100
Kraton Polymers LLC, 6.75%, 3/1/2019		210,000	218,925
Longview Fibre Paper & Packaging, Inc., 144A, 8.0%, 6/1/2016 (b)		335,000	335,000
LyondellBasell Industries NV, 144A, 5.0%, 4/15/2019		320,000	335,600
Molycorp, Inc., 144A, 10.0%, 6/1/2020		410,000	405,900
Momentive Performance Materials, Inc., 9.5%, 1/15/2021	EUR	385,000	341,052
Novelis, Inc., 8.375%, 12/15/2017		85,000	90,950
OI European Group BV, 144A, 6.75%, 9/15/2020	EUR	130,000	173,975
Packaging Dynamics Corp., 144A, 8.75%, 2/1/2016		535,000	561,750
Polymer Group, Inc., 7.75%, 2/1/2019		300,000	316,875
Rain CII Carbon LLC, 144A, 8.0%, 12/1/2018		270,000	272,700
Sealed Air Corp.:			
144A, 8.125%, 9/15/2019		150,000	167,250
144A, 8.375%, 9/15/2021		150,000	169,500
United States Steel Corp., 7.375%, 4/1/2020 (b)		480,000	463,200
Viskase Companies, Inc., 144A, 9.875%, 1/15/2018		940,000	977,600
Wolverine Tube, Inc., 6.0%, 6/28/2014		158,888	149,132
			17,234,719
Telecommunication Services 12.7%			
Cincinnati Bell, Inc.:			
8.25%, 10/15/2017		1,020,000	1,060,800
8.375%, 10/15/2020		1,030,000	1,050,600
8.75%, 3/15/2018		350,000	336,875
CPI International, Inc., 8.0%, 2/15/2018		260,000	234,325
Cricket Communications, Inc.:			
7.75%, 10/15/2020		1,795,000	1,714,225
10.0%, 7/15/2015		380,000	391,400
Digicel Group Ltd.:			
144A, 9.125%, 1/15/2015		195,000	196,950
144A, 10.5%, 4/15/2018		495,000	517,275
Digicel Ltd.:			
144A, 7.0%, 2/15/2020		200,000	193,500
144A, 8.25%, 9/1/2017		1,090,000	1,109,075
ERC Ireland Preferred Equity Ltd., 144A, 7.69%**, 2/15/2017 (PIK)*	EUR	709,137	269
Frontier Communications Corp.:			
7.875%, 4/15/2015		43,000	47,300
8.25%, 4/15/2017		395,000	424,625

	Principal Amount ($)(a)	Value ($)
8.5%, 4/15/2020	490,000	519,400
8.75%, 4/15/2022	560,000	588,000
Intelsat Jackson Holdings SA:		
7.25%, 10/15/2020	695,000	731,488
7.5%, 4/1/2021	855,000	904,163
8.5%, 11/1/2019	580,000	642,350
Intelsat Luxembourg SA:		
11.25%, 2/4/2017	1,450,000	1,493,500
144A, 11.5%, 2/4/2017 (PIK)	445,000	459,463
11.5%, 2/4/2017 (PIK)	1,340,625	1,384,195
MetroPCS Wireless, Inc.:		
6.625%, 11/15/2020	480,000	472,800
7.875%, 9/1/2018 (b)	420,000	435,750
Nextel Communications, Inc., Series D, 7.375%, 8/1/2015	545,000	545,681
Pacnet Ltd., 144A, 9.25%, 11/9/2015	225,000	216,000
Sprint Nextel Corp.:		
6.0%, 12/1/2016	1,515,000	1,450,612
144A, 9.125%, 3/1/2017	310,000	325,500
Syniverse Holdings, Inc., 9.125%, 1/15/2019	130,000	141,050
Telesat Canada, 144A, 6.0%, 5/15/2017	270,000	274,725
West Corp.:		
7.875%, 1/15/2019	155,000	161,975
8.625%, 10/1/2018	75,000	79,500
Windstream Corp.:		
7.0%, 3/15/2019	430,000	440,750
7.5%, 4/1/2023	335,000	343,375
7.75%, 10/15/2020	180,000	190,800
7.875%, 11/1/2017	495,000	539,550
8.125%, 9/1/2018	180,000	193,500
Zayo Group LLC, 144A, 8.125%, 1/1/2020	95,000	99,275
		19,910,621
Utilities 2.8%		
AES Corp.:		
8.0%, 10/15/2017	415,000	472,062
8.0%, 6/1/2020	525,000	602,437
Calpine Corp.:		
144A, 7.5%, 2/15/2021	485,000	523,800
144A, 7.875%, 7/31/2020	340,000	374,850
Edison Mission Energy, 7.0%, 5/15/2017	1,570,000	879,200
Energy Future Holdings Corp., Series Q, 6.5%, 11/15/2024	1,110,000	530,025
Energy Future Intermediate Holding Co., LLC:		
10.0%, 12/1/2020	125,000	135,938
144A, 11.75%, 3/1/2022	290,000	296,525
NRG Energy, Inc.:		
7.625%, 1/15/2018	200,000	207,000
8.25%, 9/1/2020	65,000	67,275
Texas Competitive Electric Holdings Co., LLC:		
Series A, 10.25%, 11/1/2015	275,000	70,813
144A, 11.5%, 10/1/2020	360,000	245,700
		4,405,625
Total Corporate Bonds (Cost $145,451,712)		**145,808,149**

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

	Principal Amount ($)(a)	Value ($)
Loan Participations and Assignments 0.9%		
Senior Loans**		
Alliance Mortgage Cycle Loan, Term Loan A, 9.5%, 6/15/2010*	700,000	0
Buffets, Inc., Letter of Credit, First Lien, LIBOR plus 9.25%, 4/22/2015*	101,894	47,381
Caesars Entertainment Operating Co., Term Loan B6, 5.495%, 1/26/2018	234,000	208,991
Chesapeake Energy Corp., Term Loan, 8.5%, 12/1/2017	425,000	422,031
Tribune Co., Term Loan B, LIBOR plus 3.0%, 6/4/2014*	1,009,426	672,535
Total Loan Participations and Assignments (Cost $2,368,202)		**1,350,938**
Convertible Bonds 0.5%		
Consumer Discretionary		
Group 1 Automotive, Inc., 3.0%, 3/15/2020	375,000	516,562
Sonic Automotive, Inc., 5.0%, 10/1/2029	155,000	201,888
Total Convertible Bonds (Cost $530,222)		**718,450**
Preferred Securities 0.6%		
Materials 0.6%		
Hercules, Inc., 6.5%, 6/30/2029 (Cost $746,721)	1,135,000	**930,700**

	Units	Value ($)
Other Investments 0.0%		
Consumer Discretionary		
AOT Bedding Super Holdings LLC* (d) (Cost $31,000)	31	**29,995**

	Shares	Value ($)
Common Stocks 0.1%		
Consumer Discretionary 0.0%		
Buffets Restaurants Holdings, Inc.*	18,256	0
Postmedia Network Canada Corp.*	8,495	6,592
Trump Entertainment Resorts, Inc.*	45	0
Vertis Holdings, Inc.*	676	7
		6,599
Industrials 0.0%		
Congoleum Corp.*	24,000	0
Quad Graphics, Inc.	56	805
		805
Materials 0.1%		
GEO Specialty Chemicals, Inc.*	24,225	0
GEO Specialty Chemicals, Inc. 144A*	2,206	0
Wolverine Tube, Inc.*	7,045	172,532
		172,532
Total Common Stocks (Cost $569,657)		**179,936**
Preferred Stock 0.3%		
Financials 0.3%		
Ally Financial, Inc., 144A, 7.0%, (Cost $451,387)	500	**445,453**
Warrants 0.0%		
Consumer Discretionary 0.0%		
Reader's Digest Association, Inc., Expiration Date 2/19/2014*	1,115	**190**
Materials 0.0%		
Hercules Trust II, Expiration Date 3/31/2029*	1,100	**8,796**
Total Warrants (Cost $244,286)		**8,986**
Securities Lending Collateral 5.3%		
Daily Assets Fund Institutional, 0.24% (e) (f) (Cost $8,285,046)	8,285,046	**8,285,046**
Cash Equivalents 2.5%		
Central Cash Management Fund, 0.14% (e) (Cost $3,882,810)	3,882,810	**3,882,810**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $162,561,043)†	103.4	**161,640,463**
Other Assets and Liabilities, Net	(3.4)	**(5,277,546)**
Net Assets	100.0	**156,362,917**

The following table represents bonds and senior loans that are in default:

Securities	Coupon	Maturity Date	Principal Amount		Acquisition Cost ($)	Value ($)
Alliance Mortgage Cycle Loan*	9.5%	6/15/2010	700,000	USD	700,000	0
Buffets, Inc.*	LIBOR plus 9.25%	4/22/2015	101,894	USD	97,948	47,381
ERC Ireland Preferred Equity Ltd.*	7.69%	2/15/2017	709,137	EUR	965,173	269
Fontainebleau Las Vegas Holdings LLC*	11.0%	6/15/2015	490,000	USD	495,963	306
Hellas Telecommunications Finance SCA*	8.985%	7/15/2015	322,107	EUR	92,199	245
Tribune Co.*	LIBOR plus 3.0%	6/4/2014	1,009,426	USD	905,407	672,535
					3,256,690	**720,736**

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

* Non-income producing security.

** Floating rate securities' yields vary with a designated market index or market rate, such as the coupon-equivalent of the U.S. Treasury Bill rate. These securities are shown at their current rate as of June 30, 2012.

† The cost for federal income tax purposes was $165,863,117. At June 30, 2012, net unrealized depreciation for all securities based on tax cost was $4,222,654. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $5,703,866 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $9,926,520.

(a) Principal amount stated in U.S. dollars unless otherwise noted.

(b) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2012 amounted to $7,984,244, which is 5.1% of net assets.

(c) When-issued security.

(d) The Fund 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 Fund 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 Fund's decision to sell a restricted security and the point at which the Fund is permitted or able to sell such security, the Fund 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 Fund. The future value of these securities is uncertain and there may be changes in the estimated value of these securities.

Schedule of Restricted Securities	Acquisition Date	Cost ($)	Value ($)	Value as % of Net Assets
AOT Bedding Super Holdings LLC*	June 2010	31,000	29,995	0.02

(e) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(f) Represents collateral held in connection with securities lending. Income earned by the Fund is net of borrower rebates.

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.

LIBOR: London Interbank Offered Rate

PIK: Denotes that all or a portion of the income is paid in-kind in the form of additional principal.

REIT: Real Estate Investment Trust

At June 30, 2012, open credit default swap contracts sold were as follows:

Effective/ Expiration Date	Notional Amount ($) (g)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (h)	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Appreciation/ (Depreciation) ($)
12/20/2011 3/20/2017	370,000[1]	5.0%	CIT Group, Inc., 5.50%, 2/15/2019, BB–	24,047	14,725	9,322
6/21/2010 9/20/2013	1,230,000[2]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BB+	62,600	(37,768)	100,368
6/21/2010 9/20/2013	380,000[3]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BB+	19,339	4,657	14,682
6/21/2010 9/20/2015	175,000[4]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BB+	15,759	(16,625)	32,384
6/21/2010 9/20/2015	320,000[1]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BB+	28,816	(27,750)	56,566
6/21/2010 9/20/2015	100,000[2]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BB+	9,005	(6,896)	15,901
6/21/2010 9/20/2015	560,000[5]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BB+	50,430	(9,983)	60,413
6/20/2011 9/20/2016	575,000[5]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BB+	53,705	44,895	8,810
3/21/2011 6/20/2016	1,085,000[6]	5.0%	Ford Motor Credit Co., LLC, 5.0%, 5/15/2018, BB+	116,915	103,310	13,605
6/20/2011 9/20/2016	440,000[6]	5.0%	Forest Oil Corp., 7.25%, 6/15/2019, B	(31,122)	13,849	(44,971)
9/20/2011 12/20/2016	250,000[6]	5.0%	Forest Oil Corp., 7.25%, 6/15/2019, B	(19,886)	(4,366)	(15,520)
9/20/2011 12/20/2016	165,000[2]	5.0%	Forest Oil Corp., 7.25%, 6/15/2019, B	(13,125)	(2,882)	(10,243)
6/20/2011 9/20/2015	1,145,000[2]	5.0%	HCA, Inc., 6.375%, 1/15/2015, B–	54,832	46,987	7,845
3/21/2011 6/20/2016	610,000[4]	5.0%	HCA, Inc., 6.375%, 1/15/2015, B–	21,052	18,135	2,917
Total net unrealized appreciation						**252,079**

(g) The maximum potential amount of future undiscounted payments that the Fund could be required to make under a credit default swap contract would be the notional amount of the contract. These potential amounts would be partially offset by any recovery values of the referenced debt obligation or net amounts received from the settlement of buy protection credit default swap contracts entered into by the Fund for the same referenced debt obligation.

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

(h) The quality ratings represent the higher of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings and are unaudited.

Counterparties:

[1] Credit Suisse

[2] The Goldman Sachs & Co.

[3] Citigroup, Inc.

[4] JPMorgan Chase Securities, Inc.

[5] Bank of America

[6] Barclays Bank PLC

At June 30, 2012, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
EUR	3,172,400	USD	3,999,026	8/2/2012	(16,718)	Citigroup, Inc.
EUR	600	USD	747	8/2/2012	(13)	JPMorgan Chase Securities, Inc.
Total unrealized depreciation					**(16,731)**	

Currency Abbreviations			
EUR	Euro	USD	United States Dollar

For information on the Fund's policy and additional disclosures regarding credit default swap contracts and forward foreign currency exchange contracts, please refer to Note B in the accompanying Notes to Financial Statements.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2012 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Fixed Income Investments (i)				
Corporate Bonds	$ —	$143,200,026	$ 2,608,123	$145,808,149
Loan Participations and Assignments	—	1,350,938	0	1,350,938
Convertible Bonds	—	718,450	—	718,450
Preferred Securities	—	930,700	—	930,700
Other Investments	—	—	29,995	29,995
Common Stocks (i)	7,397	0	172,539	179,936
Preferred Stock	—	445,453	—	445,453
Warrants (i)	—	—	8,986	8,986
Short-Term Investments (i)	12,167,856	—	—	12,167,856
Derivatives (j)	—	322,813	—	322,813
Total	**$ 12,175,253**	**$146,968,380**	**$ 2,819,643**	**$161,963,276**
Liabilities				
Derivatives (j)	$ —	$ (87,465)	$ —	$ (87,465)
Total	**$ —**	**$ (87,465)**	**$ —**	**$ (87,465)**

There have been no transfers between Level 1 and Level 2 fair value measurements during the period ended June 30, 2012.

(i) See Investment Portfolio for additional detailed categorizations.

(j) Derivatives include unrealized appreciation (depreciation) on credit default swap contracts and forward foreign currency exchange contracts.

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

Level 3 Reconciliation

The following is a reconciliation of the Fund's Level 3 investments for which significant unobservable inputs were used in determining value:

	Corporate Bonds	Loan Participations and Assignments	Other Investments	Common Stocks	Warrants	Total
Balance as of December 31, 2011	$ 2,733,713	$ 0	$ 31,000	$ 177,317	$ 9,254	**$ 2,951,284**
Realized gains (loss)	(1,056,073)	—	—	179,597	—	**(876,476)**
Change in unrealized appreciation (depreciation)	1,058,292	0	(1,005)	(1,415)	(268)	**1,055,604**
Amortization premium/discount	14,497	—	—	—	—	**14,497**
Purchases	22,977	—	—	(182,960)	—	**(159,983)**
(Sales)	(165,283)	—	—	—	—	**(165,283)**
Transfers into Level 3	—	—	—	—	—	**—**
Transfers (out) of Level 3	—	—	—	—	—	**—**
Balance as of June 30, 2012	**$ 2,608,123**	**$ 0**	**$ 29,995**	**$ 172,539**	**$ 8,986**	**$ 2,819,643**
Net change in unrealized appreciation (depreciation) from investments still held as of June 30, 2012	**$ 1,058,292**	**$ 0**	**$ (1,005)**	**$ (1,415)**	**$ (268)**	**$ 1,055,604**

Quantitative Disclosure About Significant Unobservable Inputs

Asset Class	Fair Value at 6/30/12	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Other Investments				
Consumer Discretionary	$ 29,995	Book Value	Book Value of Equity	$936.11 per share
			Discount for Lack of Marketability	10%
Common Stock				
Consumer Discretionary	$ 7	Market Approach	EV/EBITDA Multiple	3.5–5.5
			Discount for Lack of Marketability	10%–20%
Industrials	$ 0	Book Value	Book Value of Equity	0
Materials	$ 172,532	Market Approach	EV/EBITDA Multiple	9.9
			Discount for Lack of Marketability	25%
	$ 0	Book Value	Book Value of Equity	0
Warrants				
Consumer Discretionary	$ 190	Broker Quote	Discount for Lack of Marketability	20%
Materials	$ 8,796	Black Scholes Option Pricing Model	Implied Volatility	44%–57% (51%)
			Discount for Lack of Marketability	20%
Loan Participations & Assignments				
Senior Loans	$ 0	Last Pricing Vendor Quote	Bid/Ask Spread	0
Corporate Bonds				
Materials	$ 149,132	Discounted Cash Flow Methodology	Discount Rate	15%
			Discount for Lack of Marketability	10%
	$ 2,458,991	Discounted Cash Flow Methodology	Discount Rate	9.6%
			Discount for Lack of Marketability	10%

Qualitative Disclosure About Unobservable Inputs

Significant unobservable inputs developed by the Pricing Committee and used in the fair value measurement of the Fund's equity investments include book value of equity with a discount for lack of marketability and enterprise value (EV) to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio with a discount for lack of marketability. A significant change in the EV to EBITDA ratio may result in a significant change in the fair value measurement, while a significant change in the discount for lack of marketability is unlikely to result in a materially higher or lower fair value measurement.

Significant unobservable inputs developed by the Pricing Committee and used in the fair value measurement of the Fund's fixed income investments include the discounted cash flow methodology. A significant change in the discount rate could have a material change on the fair value measurement, while a significant change in the discount for lack of marketability is unlikely to result in a materially higher or lower fair value measurement. Generally, there is an inverse relationship between the discount rate and the fair value measurement of a fixed income investment.

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

Statement of Assets and Liabilities

as of June 30, 2012 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $150,393,187) — including $7,984,244 of securities loaned	$	149,472,607
Investment in Daily Assets Fund Institutional (cost $8,285,046)*		8,285,046
Investment in Central Cash Management Fund (cost $3,882,810)		3,882,810
Total investments in securities, at value (cost $162,561,043)		161,640,463
Cash		24,589
Foreign currency, at value (cost $94)		95
Receivable for investments sold		1,114,851
Receivable for Fund shares sold		4,317
Interest receivable		3,078,520
Unrealized appreciation on swap contracts		322,813
Upfront payments paid on swap contracts		246,558
Foreign taxes recoverable		368
Other assets		566
Total assets		166,433,140
Liabilities		
Payable upon return of securities loaned		8,285,046
Payable for investments purchased		687,533
Payable for investments purchased — when-issued securities		580,363
Payable for Fund shares redeemed		176,667
Unrealized depreciation on swap contracts		70,734
Unrealized depreciation on forward foreign currency exchange contracts		16,731
Upfront payments received on swap contracts		106,270
Accrued management fee		63,843
Accrued Trustees' fees		768
Other accrued expenses and payables		82,268
Total liabilities		10,070,223
Net assets, at value	**$**	**156,362,917**
Net Assets Consist of		
Undistributed net investment income		5,825,288
Net unrealized appreciation (depreciation) on:		
Investments		(920,580)
Swap contracts		252,079
Foreign currency		(18,976)
Accumulated net realized gain (loss)		(44,257,077)
Paid-in capital		195,482,183
Net assets, at value	**$**	**156,362,917**
Class A		
Net Asset Value, offering and redemption price per share ($156,273,816 ÷ 24,246,379 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**6.45**
Class B		
Net Asset Value, offering and redemption price per share ($89,101 ÷ 13,739 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**6.49**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2012 (Unaudited)

Investment Income		
Interest	$	6,629,215
Dividends		28
Income distributions — Central Cash Management Fund		3,615
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		29,385
Total income		6,662,243
Expenses:		
Management fee		423,836
Administration fee		84,876
Distribution service fee (Class B)		113
Custodian fee		15,374
Audit and tax fees		35,460
Legal fees		5,145
Reports to shareholders		20,978
Trustees' fees and expenses		4,845
Other		24,414
Total expenses		615,041
Net investment income (loss)		**6,047,202**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		964,279
Swap contracts		127,889
Foreign currency		144,960
		1,237,128
Change in net unrealized appreciation (depreciation) on:		
Investments		3,636,463
Swap contracts		162,109
Foreign currency		(48,218)
		3,750,354
Net gain (loss)		**4,987,482**
Net increase (decrease) in net assets resulting from operations	**$**	**11,034,684**

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, 2012 (Unaudited)	Year Ended December 31, 2011
Operations:		
Net investment income	$ 6,047,202	$ 13,489,647
Net realized gain (loss)	1,237,128	(3,786,632)
Change in net unrealized appreciation (depreciation)	3,750,354	(2,401,972)
Net increase (decrease) in net assets resulting from operations	11,034,684	7,301,043
Distributions to shareholders from:		
Net investment income:		
Class A	(13,517,771)	(16,387,608)
Class B	(7,507)	(11,864)
Total distributions	(13,525,278)	(16,399,472)
Fund share transactions:		
Class A		
Proceeds from shares sold	16,874,777	46,414,241
Reinvestment of distributions	13,517,771	16,387,608
Payments for shares redeemed	(41,068,513)	(79,145,753)
Net increase (decrease) in net assets from Class A share transactions	(10,675,965)	(16,343,904)
Class B		
Proceeds from shares sold	8,203	9,003
Reinvestment of distributions	7,507	11,864
Payments for shares redeemed	(9,379)	(73,315)
Net increase (decrease) in net assets from Class B share transactions	6,331	(52,448)
Increase (decrease) in net assets	(13,160,228)	(25,494,781)
Net assets at beginning of period	169,523,145	195,017,926
Net assets at end of period (including undistributed net investment income of $5,825,288 and $13,303,364, respectively)	**$ 156,362,917**	**$ 169,523,145**

Other Information		
Class A		
Shares outstanding at beginning of period	25,818,935	28,235,548
Shares sold	2,594,005	7,106,488
Shares issued to shareholders in reinvestment of distributions	2,118,773	2,479,214
Shares redeemed	(6,285,334)	(12,002,315)
Net increase (decrease) in Class A shares	(1,572,556)	(2,416,613)
Shares outstanding at end of period	**24,246,379**	**25,818,935**
Class B		
Shares outstanding at beginning of period	12,847	20,802
Shares sold	1,183	1,284
Shares issued to shareholders in reinvestment of distributions	1,167	1,784
Shares redeemed	(1,458)	(11,023)
Net increase (decrease) in Class B shares	892	(7,955)
Shares outstanding at end of period	**13,739**	**12,847**

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

Financial Highlights

Class A	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$ 6.56**	**$ 6.90**	**$ 6.55**	**$ 5.30**	**$ 7.81**	**$ 8.38**
Income (loss) from investment operations:						
Net investment income[a]	.24	.51	.52	.51	.57	.63
Net realized and unrealized gain (loss)	.21	(.24)	.36	1.40	(2.29)	(.54)
Total from investment operations	.45	.27	.88	1.91	(1.72)	.09
Less distributions from:						
Net investment income	(.56)	(.61)	(.53)	(.66)	(.79)	(.66)
Net asset value, end of period	**$ 6.45**	**$ 6.56**	**$ 6.90**	**$ 6.55**	**$ 5.30**	**$ 7.81**
Total Return (%)	6.79**	3.84	14.00	39.99	(23.94)[b]	.96
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	156	169	195	197	154	248
Ratio of expenses before expense reductions (%)	.72*	.72	.72	.67	.80	.69
Ratio of expenses after expense reductions (%)	.72*	.72	.72	.67	.79	.69
Ratio of net investment income (%)	7.12*	7.59	7.90	8.81	8.42	7.84
Portfolio turnover rate (%)	28**	59	93	66	38	61

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

* Annualized

** Not annualized

Class B	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$ 6.59**	**$ 6.93**	**$ 6.58**	**$ 5.31**	**$ 7.81**	**$ 8.38**
Income (loss) from investment operations:						
Net investment income[a]	.23	.49	.50	.49	.53	.60
Net realized and unrealized gain (loss)	.21	(.24)	.36	1.42	(2.27)	(.54)
Total from investment operations	.44	.25	.86	1.91	(1.74)	.06
Less distributions from:						
Net investment income	(.54)	(.59)	(.51)	(.64)	(.76)	(.63)
Net asset value, end of period	**$ 6.49**	**$ 6.59**	**$ 6.93**	**$ 6.58**	**$ 5.31**	**$ 7.81**
Total Return (%)	6.63**	3.57	13.64	39.64	(24.13)[b]	.54
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	.1	.1	.1	.2	.1	10
Ratio of expenses before expense reductions (%)	1.00*	.99	.99	.94	1.25	1.08
Ratio of expenses after expense reductions (%)	1.00*	.99	.99	.94	1.23	1.08
Ratio of net investment income (%)	6.86*	7.33	7.63	8.54	7.98	7.45
Portfolio turnover rate (%)	28**	59	93	66	38	61

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

* Annualized

** Not annualized

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

DWS High Income VIP (the "Fund") is a diversified series of DWS Variable Series II (the "Trust"), which is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company organized as a Massachusetts business trust.

Multiple Classes of Shares of Beneficial Interest. The Fund offers two classes of shares (Class A shares and Class B shares). Sales of Class B shares are subject to 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 Fund. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain fund-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 Rule 12b-1 fee and recordkeeping 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 Fund'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 Fund in the preparation of its financial statements.

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.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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 and loan participations and assignments are valued at prices supplied by independent pricing services approved by the Fund's Board. 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 one or more broker-dealers. 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. These securities are generally categorized as Level 2.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and are categorized as Level 2.

Swap contracts are valued daily based upon prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer. Swap contracts are generally categorized as Level 2.

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 Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market

in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. 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 acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. 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 gain/appreciation and loss/depreciation on investments.

Securities Lending. The Fund may lend securities to certain financial institutions. The Fund retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the issuer of securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Loan Participations and Assignments. Senior loans are portions of loans originated by banks and sold in pieces to investors. These U.S. dollar-denominated fixed and floating rate loans ("Loans") in which the Fund invests are arranged through private negotiations between the borrower and one or more financial institutions ("Lenders"). The Fund 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 Fund having a contractual relationship only with the Lender, not with the borrower. The Fund 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 Fund 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 Fund will not benefit directly from any collateral supporting the Loan in which it has purchased the Participation. As a result, the Fund assumes the credit risk of both the borrower and the Lender that is selling the Participation. Assignments typically result in the Fund having a direct contractual relationship with the borrower, and the Fund may enforce compliance by the borrower with the terms of the loan agreement. Senior loans held by the Fund are generally in the form of Assignments, but the Fund may also invest in Participations. All senior loans involve interest rate risk, liquidity risk and credit risk, including the potential default or insolvency of the borrower.

When-Issued/Delayed Delivery Securities. The Fund may purchase securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the Fund enters into a commitment to purchase a security, the transaction is recorded and the value of the transaction 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. At the time the Fund enters into a purchase 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 transaction 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. The Fund's 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 income to its shareholders.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $39,234,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2014 ($3,844,000), December 31, 2015 ($858,000), December 31, 2016 ($17,300,000) and December 31, 2017 ($17,232,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2011 through December 31, 2011, the Fund elects to defer qualified late year losses of approximately $2,439,000 of net realized long-term capital losses and $519,000 of net realized short-term capital losses. The Fund intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31, 2012.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. Distributions of net investment income of the Fund, if any, are made annually. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the Fund if not distributed and, therefore, will be distributed to shareholders at least annually. The Fund may also make additional distributions for tax purposes if necessary.

The timing and characterization of certain income and capital gain 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 foreign denominated investments, investments in forward currency contracts, investments in swap contracts 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 Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

The tax character of current year distributions will be determined at the end of the current fiscal year.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

Contingencies. In the normal course of business, the Fund may enter into contracts with service providers that contain general 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 been made. However, based on experience, the Fund expects 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. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes for the Fund, with the exception of securities in default of principal.

B. Derivative Instruments

Credit Default Swap Contracts. A credit default swap is a contract between a buyer and a seller of protection against pre-defined credit events for the reference entity. For the six months ended June 30, 2012, the Fund sold credit default swap contracts to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer. As a seller in the credit default swap contract, the Fund is required to pay the par (or other agreed-upon) value of the referenced entity to the counterparty with the occurrence of a credit event by a third party, such as a U.S. or foreign corporate issuer, on the reference entity, which would likely result in a loss to the Fund. In return, the Fund receives from the counterparty a periodic stream of payments over the term of the contract provided that no credit event has occurred. If no credit event occurs, the Fund keeps the stream of payments with no payment obligations. The Fund may also buy credit default swap contracts in order to hedge against the risk of a credit event on debt securities, in which case the Fund functions as the counterparty referenced above. This involves the risk that the contract may expire worthless. It also involves counterparty risk that the seller may fail to satisfy its payment obligations to the Fund with the occurrence of a credit event. When the Fund 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 reference entities for all outstanding credit default swap contracts sold by the Fund.

The value of the credit default swap is adjusted daily and the change in value, if any, is recorded daily as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Under the terms of the credit default swap contracts, the Fund receives or makes quarterly payments based on a specified interest rate on a fixed notional amount. These payments are recorded as a realized gain or loss in 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 in the Statement of Operations.

A summary of the open credit default swap contracts as of June 30, 2012 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the Fund's investment in credit default swap contracts sold had a total notional value generally indicative of a range from approximately $6,455,000 to $7,405,000.

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. For the six months ended June 30, 2012, the Fund entered 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. On the settlement date of the forward currency contract, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it was closed. Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. The maximum counterparty credit risk to the Fund is measured by the unrealized gain on appreciated contracts. Additionally, when utilizing forward currency contracts to hedge, the Fund gives up the opportunity to profit from favorable exchange rate movements during the term of the contract.

A summary of the open forward currency contracts as of June 30, 2012 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the Fund's investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $3,001,000 to $4,068,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2012 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivative	**Swap Contracts**
Credit Contracts (a)	$ 322,813

The above derivative is located in the following Statement of Assets and Liabilities account:

(a) Unrealized appreciation on swap contracts

Liability Derivatives	**Forward Contracts**	**Swap Contracts**	**Total**
Credit Contracts (a)	$ —	$ (70,734)	$ (70,734)
Foreign Exchange Contracts (b)	(16,731)	—	(16,731)
	$ (16,731)	**$ (70,734)**	**$ (87,465)**

Each of the above derivatives is located in the following Statement of Assets and Liabilities accounts:

(a) Unrealized depreciation on swap contracts

(b) Unrealized depreciation on forward foreign currency exchange contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2012 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Forward Contracts**	**Swap Contracts**	**Total**
Credit Contracts (a)	$ —	$ 127,889	$ 127,889
Foreign Exchange Contracts (b)	152,560	—	152,560
	$ 152,560	**$ 127,889**	**$ 280,449**

Each of the above derivatives is located in the following Statement of Operations accounts:

(a) Net realized gain (loss) from swap contracts

(b) Net realized gain (loss) from foreign currency (Statement of Operations includes both forward currency contracts and foreign currency transactions)

Change in Net Unrealized Appreciation (Depreciation)	**Forward Contracts**	**Swap Contracts**	**Total**
Credit Contracts (a)	$ —	$ 162,109	$ 162,109
Foreign Exchange Contracts (b)	(49,399)	—	(49,399)
	$ (49,399)	**$ 162,109**	**$ 112,710**

Each of the above derivatives is located in the following Statement of Operations accounts:

(a) Change in net unrealized appreciation (depreciation) on swap contracts

(b) Change in net unrealized appreciation (depreciation) on foreign currency (Statement of Operations includes both forward currency contracts and foreign currency transactions)

C. Purchases and Sales of Securities

During the six months ended June 30, 2012, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury securities) aggregated $43,230,868 and $50,427,875, respectively. Purchases and sales of U.S. Treasury securities aggregated $1,018,128 and $2,016,517, respectively.

D. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund 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 Fund.

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays a monthly management fee based on the Fund's average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

First $250 million	.500%
Next $750 million	.470%
Next $1.5 billion	.450%
Next $2.5 billion	.430%
Next $2.5 billion	.400%
Next $2.5 billion	.380%
Next $2.5 billion	.360%
Over $12.5 billion	.340%

Accordingly, for the six months ended June 30, 2012, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate of 0.50% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the six months ended June 30, 2012, the Administration Fee was $84,876, of which $12,769 is unpaid.

Service Provider Fees. DWS Investments Service Company ("DISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2012, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2012
Class A	$ 134	$ 47
Class B	10	4
	$ 144	**$ 51**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plans, DWS Investments Distributors, Inc. ("DIDI") received a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the six months ended June 30, 2012, the Distribution Service Fee aggregated $113, of which $18 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2012, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $11,326, of which $1,570 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

Security Lending Fees. Effective January 27, 2012, Deutsche Bank AG serves as lending agent for the Fund. For the period from January 27, 2012 through June 30, 2012, the Fund incurred lending agent fees to Deutsche Bank AG for the amount of $3,243.

E. Investing in High-Yield Securities

The Fund's performance could be hurt if a security declines in credit quality or goes into default, or if an issuer does not make timely payments of interest or principal. Because the issuers of high-yield debt securities or junk bonds (debt securities rated below the fourth-highest category) may be in uncertain financial health, the risk of loss from default by the issuer is significantly greater. Prices and yields of high-yield securities will fluctuate over time and, during periods of economic uncertainty, volatility of high-yield securities may adversely affect a fund's net asset value. Because the Fund may invest in securities not paying current interest or in securities already in default, these risks may be more pronounced.

F. Ownership of the Fund

At June 30, 2012, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 30%, 30% and 30%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 100%.

G. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $375 million revolving credit facility provided by a syndication of banks. The Fund may borrow 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 on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at June 30, 2012.

Information About Your Fund's Expenses **(Unaudited)**

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (January 1, 2012 to June 30, 2012).

The tables illustrate your Fund's expenses in two ways:

- **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund'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% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund'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. 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, 2012

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/12	$1,000.00	$1,000.00
Ending Account Value 6/30/12	$1,067.90	$1,066.30
Expenses Paid per $1,000*	$ 3.70	$ 5.14

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/12	$1,000.00	$1,000.00
Ending Account Value 6/30/12	$1,021.28	$1,019.89
Expenses Paid per $1,000*	$ 3.62	$ 5.02

* Expenses are equal to the Fund's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by 182 (the number of days in the most recent six-month period), then divided by 366.

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS High Income VIP	.72%	1.00%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

Proxy Voting

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 are available on our Web site — www.dws-investments.com (click on "proxy voting" at the bottom of the page) — 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) 728-3337.

Summary of Management Fee Evaluation by Independent Fee Consultant

September 26, 2011

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds (formerly the DWS Scudder Funds). My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2011, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007, 2008, 2009 and 2010.

Qualifications

For more than 35 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past ten years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds and have served in various leadership and financial oversight capacities with non-profit organizations.

Evaluation of Fees for each DWS Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 109 mutual fund portfolios in the DWS Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

- The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.
- The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

DeAM's Fees for Similar Services to Others

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Fund. These similar products included the other DWS Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

Costs and Profit Margins

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

Economies of Scale

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Fund compares with this industry observation, I reviewed:

The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.

Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.

How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

Quality of Service — Performance

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

Complex-Level Considerations

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

I reviewed DeAM's profitability analysis for all DWS Funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.

I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.

I considered how aggregated DWS Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.

I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

Findings

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Funds are reasonable.

Thomas H. Mack

Thomas H. Mack
President, Thomas H. Mack & Co., Inc.

Notes

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2HI-3 (R-028385-1 8/12)

DWS INVESTMENTS
Deutsche Bank Group

JUNE 30, 2012

SEMIANNUAL REPORT

DWS VARIABLE SERIES I

DWS Capital Growth VIP

Deutsche Bank Group

Contents

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus or summary prospectus, if available, call (800) 728-3337 or your financial representative. We advise you to consider the Fund's objectives, risks, charges and expenses carefully before investing. The summary prospectus and prospectus contain this and other important information about the Fund. Please read the prospectus carefully before you invest.

The Fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

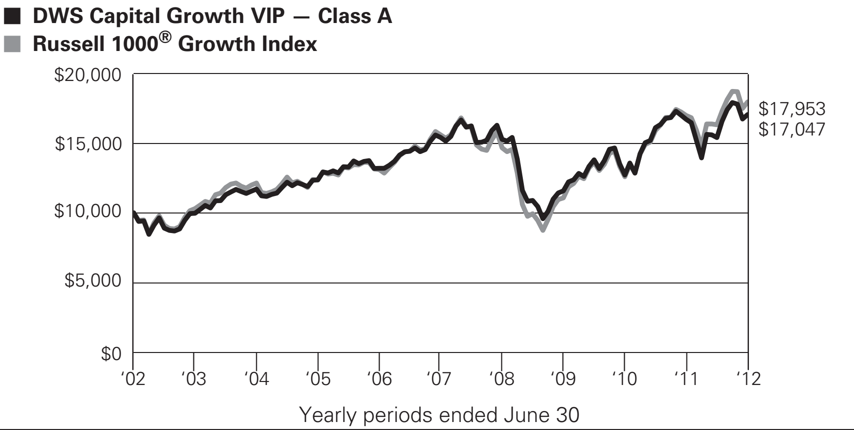
Performance Summary

June 30, 2012 (Unaudited)

Fund 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 contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2012 are 0.50% and 0.84% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment



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 do not reflect any fees or expenses and it is not possible to invest directly into an index.

Comparative Results

DWS Capital Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,079	$10,210	$14,736	$11,066	$17,047
	Average annual total return	10.79%	2.10%	13.80%	2.05%	5.48%
Russell 1000 Growth Index	Growth of $10,000	$11,008	$10,576	$16,223	$11,518	$17,953
	Average annual total return	10.08%	5.76%	17.50%	2.87%	6.03%

DWS Capital Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$11,056	$10,177	$14,596	$10,885	$16,480
	Average annual total return	10.56%	1.77%	13.43%	1.71%	5.12%
Russell 1000 Growth Index	Growth of $10,000	$11,008	$10,576	$16,223	$11,518	$17,953
	Average annual total return	10.08%	5.76%	17.50%	2.87%	6.03%

The growth of $10,000 is cumulative.

‡ Total returns shown for periods less than one year are not annualized.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/12**	**12/31/11**
Common Stocks	97%	98%
Cash Equivalents	3%	2%
	100%	100%

Sector Diversification (As a % of Common Stocks and Convertible Preferred Stocks)	**6/30/12**	**12/31/11**
Information Technology	33%	31%
Consumer Discretionary	15%	13%
Industrials	13%	14%
Health Care	12%	10%
Consumer Staples	11%	10%
Energy	6%	12%
Financials	5%	5%
Materials	4%	4%
Utilities	1%	1%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 5.

Following the Fund'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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management Team

Owen Fitzpatrick, CFA
Lead Portfolio Manager

Thomas M. Hynes, Jr., CFA
Brendan O'Neill, CFA
Portfolio Managers

Investment Portfolio

June 30, 2012 (Unaudited)

	Shares	Value ($)
Common Stocks 98.8%		
Consumer Discretionary 14.3%		
Auto Components 0.8%		
BorgWarner, Inc.* (a)	86,453	**5,670,452**
Hotels, Restaurants & Leisure 2.7%		
McDonald's Corp.	85,761	7,592,421
Starwood Hotels & Resorts Worldwide, Inc. (a)	137,050	7,269,132
Wynn Resorts Ltd.	41,526	4,307,077
		19,168,630
Media 1.9%		
Comcast Corp. "A"	172,105	5,502,197
News Corp. "A" (a)	365,075	8,137,522
		13,639,719
Multiline Retail 0.9%		
Dollar General Corp.* (a)	124,494	**6,771,229**
Specialty Retail 4.9%		
Bed Bath & Beyond, Inc.* (a)	123,309	7,620,496
Dick's Sporting Goods, Inc. (a)	175,329	8,415,792
GNC Holdings, Inc. "A" (a)	110,260	4,322,192
Limited Brands, Inc. (a)	238,180	10,129,795
Sally Beauty Holdings, Inc.*	190,055	4,892,016
		35,380,291
Textiles, Apparel & Luxury Goods 3.1%		
Coach, Inc. (a)	138,518	8,100,532
NIKE, Inc. "B" (a)	166,097	14,579,995
		22,680,527
Consumer Staples 11.4%		
Beverages 3.7%		
Beam, Inc.	170,364	10,646,046
PepsiCo, Inc. (a)	223,700	15,806,642
		26,452,688
Food & Staples Retailing 6.1%		
Costco Wholesale Corp. (a)	207,166	19,680,770
Wal-Mart Stores, Inc.	92,676	6,461,371
Whole Foods Market, Inc. (a)	186,194	17,748,012
		43,890,153
Food Products 1.6%		
Kraft Foods, Inc. "A"	308,503	**11,914,386**
Energy 6.1%		
Energy Equipment & Services 3.0%		
National Oilwell Varco, Inc.	109,848	7,078,605
Oil States International, Inc.*	56,597	3,746,722
Schlumberger Ltd. (a)	163,976	10,643,682
		21,469,009
Oil, Gas & Consumable Fuels 3.1%		
Anadarko Petroleum Corp.	162,958	10,787,819
Concho Resources, Inc.*	35,344	3,008,481
EOG Resources, Inc. (a)	99,660	8,980,363
		22,776,663
Financials 5.2%		
Capital Markets 2.3%		
Ameriprise Financial, Inc. (a)	74,864	3,912,393
T. Rowe Price Group, Inc. (a)	198,766	12,514,307
		16,426,700

	Shares	Value ($)
Consumer Finance 1.3%		
Discover Financial Services	283,050	**9,787,869**
Real Estate Investment Trusts 1.6%		
American Tower Corp. (REIT)	165,037	**11,537,737**
Health Care 12.3%		
Biotechnology 5.5%		
Celgene Corp.* (a)	255,814	16,413,026
Cepheid, Inc.* (a)	173,232	7,752,132
Gilead Sciences, Inc.* (a)	219,828	11,272,780
Medivation, Inc.* (a)	28,248	2,581,867
Vertex Pharmaceuticals, Inc.* (a)	30,629	1,712,774
		39,732,579
Health Care Equipment & Supplies 1.9%		
CareFusion Corp.*	257,556	6,614,038
St. Jude Medical, Inc. (a)	169,550	6,766,741
		13,380,779
Health Care Providers & Services 3.8%		
Express Scripts Holding Co.* (a)	308,481	17,222,494
McKesson Corp. (a)	108,471	10,169,156
		27,391,650
Life Sciences Tools & Services 1.1%		
Thermo Fisher Scientific, Inc.	152,697	**7,926,501**
Industrials 12.6%		
Aerospace & Defense 1.2%		
TransDigm Group, Inc.*	65,672	**8,819,750**
Commercial Services & Supplies 0.8%		
Stericycle, Inc.* (a)	63,991	**5,866,055**
Electrical Equipment 3.2%		
AMETEK, Inc. (a)	204,966	10,229,853
Regal-Beloit Corp. (a)	57,022	3,550,190
Roper Industries, Inc. (a)	91,994	9,068,768
		22,848,811
Industrial Conglomerates 2.3%		
General Electric Co. (a)	771,818	**16,084,687**
Machinery 3.7%		
Dover Corp. (a)	128,534	6,890,708
Navistar International Corp.* (a)	125,358	3,556,406
Parker Hannifin Corp. (a)	143,142	11,004,757
SPX Corp. (a)	81,621	5,331,484
		26,783,355
Road & Rail 1.4%		
Norfolk Southern Corp.	141,754	**10,173,685**
Information Technology 32.7%		
Communications Equipment 3.6%		
QUALCOMM, Inc. (a)	464,433	**25,859,629**
Computers & Peripherals 13.2%		
Apple, Inc.* (a)	128,568	75,083,712
EMC Corp.* (a)	801,112	20,532,501
		95,616,213
Internet Software & Services 2.2%		
Google, Inc. "A"* (a)	27,288	**15,828,950**

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

	Shares	Value ($)
IT Services 4.4%		
Accenture PLC "A" (a)	249,684	15,003,512
International Business Machines Corp.	68,167	13,332,102
VeriFone Systems, Inc.* (a)	108,861	3,602,210
		31,937,824
Semiconductors & Semiconductor Equipment 1.6%		
Skyworks Solutions, Inc.* (a)	164,118	4,491,910
Teradyne, Inc.* (a)	105,110	1,477,846
Texas Instruments, Inc.	190,449	5,463,982
		11,433,738
Software 7.7%		
Check Point Software Technologies Ltd.* (a)	133,023	6,596,611
Citrix Systems, Inc.*	114,249	9,590,061
Microsoft Corp.	584,446	17,878,203
Oracle Corp.	622,422	18,485,933
Solera Holdings, Inc.	67,043	2,801,727
		55,352,535
Materials 3.7%		
Chemicals 2.0%		
Ecolab, Inc. (a)	148,968	10,208,777
Monsanto Co.	45,449	3,762,268
		13,971,045
Metals & Mining 1.7%		
Freeport-McMoRan Copper & Gold, Inc.	276,681	9,426,522
Walter Energy, Inc.	64,924	2,867,044
		12,293,566

	Shares	Value ($)
Utilities 0.5%		
Water Utilities		
American Water Works Co., Inc.	106,176	**3,639,713**
Total Common Stocks (Cost $484,601,560)		**712,507,118**

Convertible Preferred Stocks 0.1%

	Shares	Value ($)
Industrials		
United Technologies Corp., 7.5% (Cost $427,950)	8,559	**450,974**

Securities Lending Collateral 27.2%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.24% (b) (c) (Cost $196,623,815)	196,623,815	**196,623,815**

Cash Equivalents 3.3%

	Shares	Value ($)
Central Cash Management Fund, 0.14% (b) (Cost $23,513,600)	23,513,600	**23,513,600**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $705,166,925)†	129.4	**933,095,507**
Other Assets and Liabilities, Net	(29.4)	**(211,744,043)**
Net Assets	100.0	**721,351,464**

* Non-income producing security.

† The cost for federal income tax purposes was $708,735,459. At June 30, 2012, net unrealized appreciation for all securities based on tax cost was $224,360,048. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $248,451,543 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $24,091,495.

(a) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2012 amounted to $197,266,103, which is 27.3% of net assets.

(b) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(c) Represents collateral held in connection with securities lending. Income earned by the Fund is net of borrower rebates.

REIT: Real Estate Investment Trust

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2012 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks (d)	$712,507,118	$ —	$ —	$712,507,118
Convertible Preferred Stocks	450,974	—	—	450,974
Short-Term Investments (d)	220,137,415	—	—	220,137,415
Total	**$933,095,507**	**$ —**	**$ —**	**$933,095,507**

There have been no transfers between Level 1 and Level 2 fair value measurements during the period ended June 30, 2012.

(d) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of June 30, 2012 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $485,029,510) — including $197,266,103 of securities loaned	$	712,958,092
Investment in Daily Assets Fund Institutional (cost $196,623,815)*		196,623,815
Investment in Central Cash Management Fund (cost $23,513,600)		23,513,600
Total investments in securities, at value (cost $705,166,925)		933,095,507
Cash		10,000
Foreign currency, at value (cost $19,087)		20,717
Receivable for Fund shares sold		11,060
Dividends receivable		645,982
Interest receivable		16,707
Foreign taxes recoverable		29,722
Other assets		3,685
Total assets		933,833,380
Liabilities		
Payable upon return of securities loaned		196,623,815
Payable for investments purchased		14,923,913
Payable for Fund shares redeemed		527,302
Accrued management fee		217,168
Accrued Trustees' fees		4,970
Other accrued expenses and payables		184,748
Total liabilities		212,481,916
Net assets, at value	**$**	**721,351,464**
Net Assets Consist of		
Undistributed net investment income		2,234,843
Net unrealized appreciation (depreciation) on:		
Investments		227,928,582
Foreign currency		5,327
Accumulated net realized gain (loss)		(101,701,519)
Paid-in capital		592,884,231
Net assets, at value	**$**	**721,351,464**
Class A		
Net Asset Value, offering and redemption price per share ($707,911,822 ÷ 34,688,095 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**20.41**
Class B		
Net Asset Value, offering and redemption price per share ($13,439,642 ÷ 660,180 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**20.36**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2012 (Unaudited)

Investment Income		
Income:		
Dividends	$	4,098,304
Income distributions — Central Cash Management Fund		6,070
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		150,399
Total income		4,254,773
Expenses:		
Management fee		1,378,604
Administration fee		369,185
Services to shareholders		2,740
Distribution service fee (Class B)		17,242
Record keeping fee (Class B)		5,724
Custodian fee		10,646
Professional fees		27,232
Reports to shareholders		33,100
Trustees' fees and expenses		19,868
Other		18,652
Total expenses		1,882,993
Net investment income (loss)		**2,371,780**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		29,626,784
Change in net unrealized appreciation (depreciation) on:		
Investments		42,421,116
Foreign currency		(483)
		42,420,633
Net gain (loss)		**72,047,417**
Net increase (decrease) in net assets resulting from operations	**$**	**74,419,197**

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, 2012 (Unaudited)	Year Ended December 31, 2011
Operations:		
Net investment income (loss)	$ 2,371,780	$ 6,429,336
Net realized gain (loss)	29,626,784	28,062,634
Change in net unrealized appreciation (depreciation)	42,420,633	(77,914,193)
Net increase (decrease) in net assets resulting from operations	74,419,197	(43,422,223)
Distributions to shareholders from:		
Net investment income:		
Class A	(6,353,433)	(5,283,454)
Class B	(73,349)	(48,050)
Total distributions	(6,426,782)	(5,331,504)
Fund share transactions:		
Class A		
Proceeds from shares sold	9,519,584	10,917,405
Net assets acquired in tax-free reorganization*	—	126,872,037
Reinvestment of distributions	6,353,433	5,283,454
Payments for shares redeemed	(52,058,474)	(146,734,714)
Net increase (decrease) in net assets from Class A share transactions	(36,185,457)	(3,661,818)
Class B		
Proceeds from shares sold	362,719	822,574
Net assets acquired in tax-free reorganization*	—	3,304,909
Reinvestment of distributions	73,349	48,050
Payments for shares redeemed	(1,210,000)	(2,497,610)
Net increase (decrease) in net assets from Class B share transactions	(773,932)	1,677,923
Increase (decrease) in net assets	31,033,026	(50,737,622)
Net assets at beginning of period	690,318,438	741,056,060
Net assets at end of period (including undistributed net investment income of $2,234,843 and $6,289,845, respectively)	**$ 721,351,464**	**$ 690,318,438**

Other Information		
Class A		
Shares outstanding at beginning of period	36,451,466	37,210,167
Shares sold	458,040	556,745
Shares issued in tax-free reorganization*	—	6,079,145
Shares issued to shareholders in reinvestment of distributions	298,283	254,870
Shares redeemed	(2,519,694)	(7,649,461)
Net increase (decrease) in Class A shares	(1,763,371)	(758,701)
Shares outstanding at end of period	**34,688,095**	**36,451,466**
Class B		
Shares outstanding at beginning of period	698,290	623,731
Shares sold	17,695	43,180
Shares issued in tax-free reorganization*	—	158,668
Shares issued to shareholders in reinvestment of distributions	3,450	2,322
Shares redeemed	(59,255)	(129,611)
Net increase (decrease) in Class B shares	(38,110)	74,559
Shares outstanding at end of period	**660,180**	**698,290**

* On April 29, 2011, DWS Health Care VIP and DWS Technology VIP were acquired by the Fund through a tax-free reorganization (see Note F).

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

Financial Highlights

Class A	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$18.58**	**$19.59**	**$16.93**	**$13.55**	**$20.41**	**$18.24**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.07	.17	.14[c]	.14	.16	.17[c]
Net realized and unrealized gain (loss)	1.94	(1.03)	2.68	3.43	(6.83)	2.12
Total from investment operations	2.01	(.86)	2.82	3.57	(6.67)	2.29
Less distributions from:						
Net investment income	(.18)	(.15)	(.16)	(.19)	(.19)	(.12)
Net asset value, end of period	**$20.41**	**$18.58**	**$19.59**	**$16.93**	**$13.55**	**$20.41**
Total Return (%)	10.79**	(4.47)	16.71[b]	26.87[b]	(32.98)[b]	12.59[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	708	677	729	715	594	1,058
Ratio of expenses before expense reductions (%)	.50*	.50	.51	.51	.50	.53
Ratio of expenses after expense reductions (%)	.50*	.50	.51	.49	.49	.52
Ratio of net investment income (loss) (%)	.65*	.86	.78[c]	.98	.89	.86[c]
Portfolio turnover rate (%)	17**	47	42	76	21	30

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

c Net investment income per share and ratio of net investment income include non-recurring dividend income amounting to $0.05 and $0.03 per share and 0.28% and 0.17% of average daily net assets for the years ended December 31, 2010 and 2007, respectively.

* Annualized

** Not annualized

Class B	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$18.51**	**$19.51**	**$16.86**	**$13.49**	**$20.31**	**$18.15**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.03	.10	.08[c]	.09	.10	.09[c]
Net realized and unrealized gain (loss)	1.93	(1.02)	2.67	3.43	(6.81)	2.12
Total from investment operations	1.96	(.92)	2.75	3.52	(6.71)	2.21
Less distributions from:						
Net investment income	(.11)	(.08)	(.10)	(.15)	(.11)	(.05)
Net asset value, end of period	**$20.36**	**$18.51**	**$19.51**	**$16.86**	**$13.49**	**$20.31**
Total Return (%)	10.56**	(4.76)	16.33[b]	26.49[b]	(33.20)[b]	12.18[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	13	13	12	12	10	19
Ratio of expenses before expense reductions (%)	.84*	.84	.85	.85	.85	.94
Ratio of expenses after expense reductions (%)	.84*	.84	.84	.82	.82	.90
Ratio of net investment income (loss) (%)	.31*	.52	.45[c]	.65	.56	.48[c]
Portfolio turnover rate (%)	17**	47	42	76	21	30

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

c Net investment income per share and ratio of net investment income include non-recurring dividend income amounting to $0.05 and $0.03 per share and 0.28% and 0.17% of average daily net assets for the years ended December 31, 2010 and 2007, respectively.

* Annualized

** Not annualized

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

DWS 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 five diversified funds: DWS Bond VIP, DWS Core Equity VIP (formerly DWS Growth & Income VIP), DWS Capital Growth VIP, DWS Global Small Cap Growth VIP and DWS International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on DWS Capital Growth VIP. 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 Fund offers two classes of shares (Class A shares and Class B shares). Class B shares are subject to Rule 12b-1 distribution fees under the 1940 Act and recordkeeping 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 Fund. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain fund-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 fees and recordkeeping 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 Fund'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 Fund in the preparation of its financial statements.

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.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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.

Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

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 and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the issuer of securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. 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 acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. 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 gain/appreciation and loss/depreciation on investments.

Federal Income Taxes. The Fund is treated as a separate taxpayer as provided for in the Internal Revenue Code, as amended. It is the Fund's policy 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 income to the separate accounts of the Participating Insurance Companies which hold its shares.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $127,751,000, including $60,976,000 of pre-enactment losses of which $33,901,000 was inherited from its merger with DWS Technology VIP and $27,075,000 was inherited from its merger with other affiliated funds in previous years and may be applied against any realized net taxable capital gains of each year until fully utilized or until December 31, 2012 ($28,616,000), December 31, 2015 ($19,311,000), December 31, 2016 ($41,665,000) and December 31, 2017 ($38,159,000), the respective expiration dates, whichever occurs first, and which may be subject to certain limitations under Section 382–384 of the Internal Revenue Code.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. The Fund will declare and distribute dividends from its net investment income, if any, annually, 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 Fund if not distributed, and, therefore, will be distributed to shareholders at least annually.

The timing and characterization of certain income and capital gain 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 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 Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

The tax character of current year distributions will be determined at the end of the current fiscal year.

Expenses. Expenses of the Series arising in connection with a specific Fund are allocated to that Fund. Other Series expenses which cannot be directly attributed to a Fund are apportioned among the Funds in the Series.

Contingencies. In the normal course of business, the Fund may enter into contracts with service providers that contain general 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 been made. However, based on experience, the Fund expects 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 Fund is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Purchases and Sales of Securities

During the six months ended June 30, 2012, purchases and sales of investment securities (excluding short-term investments) aggregated $122,925,815 and $163,522,070, respectively.

C. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund 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 Fund.

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays a monthly management fee based on the Fund's average daily net assets, computed and accrued daily and payable monthly at the following annual rates:

First $250 million of average daily net assets	.390%
Next $750 million of average daily net assets	.365%
Over $1 billion of average daily net assets	.340%

Accordingly, for the six months ended June 30, 2012, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate of 0.37% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays the Advisor an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the six months ended June 30, 2012, the Administration Fee was $369,185, of which $58,095 is unpaid.

Service Provider Fees. DWS Investments Service Company ("DISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2012, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2012
Class A	$ 358	$ 112
Class B	72	20
	$ 430	**$ 132**

Distribution Service Agreement. DWS Investments Distributors, Inc. ("DIDI"), also an affiliate of the Advisor, is the Series' Distributor. In accordance with the Master Distribution Plan, DIDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, DIDI 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. For the six months ended June 30, 2012, the Distribution Service Fee aggregated $17,242, of which $2,044 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2012, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $12,586, of which $4,020 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

D. Ownership of the Fund

Three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 37%, 26% and 13%.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $375 million revolving credit facility provided by a syndication of banks. The Fund may borrow 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 on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at June 30, 2012.

F. Acquisition of Assets

On April 29, 2011, the Fund acquired all of the net assets of DWS Health Care VIP and DWS Technology VIP pursuant to a plan of reorganization approved by shareholders on April 11, 2011. The purpose of the transaction was to combine three funds managed by DWS with comparable investment objectives and strategies.

The acquisition was accomplished by a tax-free exchange as follows:

	Class A shares	Class B shares
DWS Health Care VIP	5,605,448	377,495
DWS Technology VIP	6,613,518	10,454

The above shares were exchanged for the following shares outstanding on the date acquired of the DWS Capital Growth VIP Fund:

	Class A shares	Class B shares
DWS Health Care VIP	2,358,210	152,955
DWS Technology VIP	3,720,935	5,713

The net assets at the acquired date were as follows:

DWS Health Care VIP	$ 52,398,965
DWS Technology VIP	$ 77,777,981

The net unrealized appreciation included in the net assets above were as follows:

DWS Health Care VIP	$ 4,928,832
DWS Technology VIP	$ 13,786,078

The aggregate net assets of DWS Capital Growth VIP immediately before the acquisition were $754,712,975. The combined net assets of DWS Capital Growth VIP immediately following the acquisition were $884,889,922.

Information About Your Fund's Expenses (Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (January 1, 2012 to June 30, 2012).

The tables illustrate your Fund's expenses in two ways:

- **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund'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% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund'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. 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, 2012

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/12	$1,000.00	$1,000.00
Ending Account Value 6/30/12	$1,107.90	$1,105.60
Expenses Paid per $1,000*	$ 2.62	$ 4.40
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/12	$1,000.00	$1,000.00
Ending Account Value 6/30/12	$1,022.38	$1,020.69
Expenses Paid per $1,000*	$ 2.51	$ 4.22

* Expenses are equal to the Fund's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by 182 (the number of days in the most recent six-month period), then divided by 366.

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series I — DWS Capital Growth VIP	.50%	.84%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

Proxy Voting

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 are available on our Web site — www.dws-investments.com (click on "proxy voting"at the bottom of the page) — 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) 728-3337.

Summary of Management Fee Evaluation by Independent Fee Consultant

September 26, 2011

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds (formerly the DWS Scudder Funds). My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2011, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007, 2008, 2009 and 2010.

Qualifications

For more than 35 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past ten years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds and have served in various leadership and financial oversight capacities with non-profit organizations.

Evaluation of Fees for each DWS Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 109 mutual fund portfolios in the DWS Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

- The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.
- The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

DeAM's Fees for Similar Services to Others

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Fund. These similar products included the other DWS Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

Costs and Profit Margins

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

Economies of Scale

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Fund compares with this industry observation, I reviewed:

The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.

Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.

How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

Quality of Service — Performance

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

Complex-Level Considerations

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

I reviewed DeAM's profitability analysis for all DWS Funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.

I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.

I considered how aggregated DWS Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.

I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

Findings

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Funds are reasonable.

Thomas H. Mack

Thomas H. Mack
President, Thomas H. Mack & Co., Inc.

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Chicago, IL 60606
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DWS INVESTMENTS
Deutsche Bank Group

JUNE 30, 2012

SEMIANNUAL REPORT

DWS VARIABLE SERIES I

DWS International VIP

DWS INVESTMENTS
Deutsche Bank Group

Contents

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus or summary prospectus, if available, call (800) 728-3337 or your financial representative. We advise you to consider the Fund's objectives, risks, charges and expenses carefully before investing. The summary prospectus and prospectus contain this and other important information about the Fund. Please read the prospectus carefully before you invest.

Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. The Fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

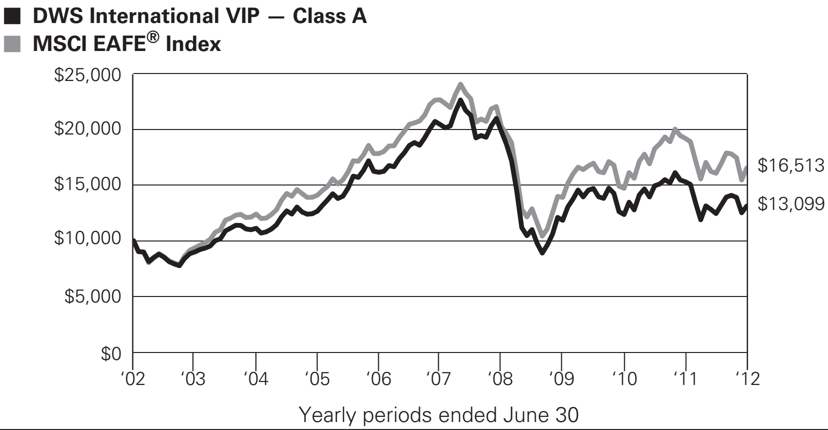
Performance Summary

June 30, 2012 (Unaudited)

Fund 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 contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2012 are 1.00% and 1.28% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment



The Morgan Stanley Capital International (MSCI) Europe, Australasia and Far East (EAFE®) Index is an unmanaged index that tracks international stock performance in the 21 developed markets in Europe, Australasia and the Far East. The index is calculated using closing local market prices and translates into U.S. dollars using the London close foreign exchange rates.

Index returns do not reflect any fees or expenses and it is not possible to invest directly into an index.

Comparative Results

DWS International VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,534	$8,575	$11,080	$6,416	$13,099
	Average annual total return	5.34%	–14.25%	3.48%	–8.49%	2.74%
MSCI EAFE® Index	Growth of $10,000	$10,296	$8,617	$11,898	$7,301	$16,513
	Average annual total return	2.96%	–13.83%	5.96%	–6.10%	5.14%

DWS International VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,504	$8,552	$10,986	$6,324	$12,724
	Average annual total return	5.04%	–14.48%	3.19%	–8.76%	2.44%
MSCI EAFE® Index	Growth of $10,000	$10,296	$8,617	$11,898	$7,301	$16,513
	Average annual total return	2.96%	–13.83%	5.96%	–6.10%	5.14%

The growth of $10,000 is cumulative.

‡ Total returns shown for periods less than one year are not annualized.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/12**	**12/31/11**
Common Stocks	97%	97%
Cash Equivalents	3%	2%
Preferred Stocks	0%	1%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/12**	**12/31/11**
Continental Europe	50%	45%
Japan	22%	21%
United Kingdom	11%	15%
Australia	9%	9%
Asia (excluding Japan)	7%	9%
Other	1%	1%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/12**	**12/31/11**
Financials	27%	27%
Industrials	18%	11%
Utilities	12%	6%
Information Technology	10%	11%
Consumer Discretionary	10%	8%
Telecommunication Services	10%	7%
Energy	5%	6%
Materials	5%	4%
Health Care	2%	12%
Consumer Staples	1%	8%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 5.

Following the Fund'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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management Team

Thomas Voecking

Jason E. Inzer

Portfolio Managers

	Shares	Value ($)
Common Stocks 94.8%		
Australia 8.8%		
Australia & New Zealand Banking Group Ltd.	50,000	1,135,054
BHP Billiton Ltd.	138,500	4,514,621
Lend Lease Group	73,000	541,866
National Australia Bank Ltd.	311,207	7,557,785
Newcrest Mining Ltd.	117,392	2,732,450
Wesfarmers Ltd.	38,691	1,191,132
Westpac Banking Corp.	47,000	1,022,463
(Cost $21,347,792)		**18,695,371**
Finland 4.1%		
Fortum Oyj	435,000	8,265,161
Nokia Oyj (a)	151,000	311,066
(Cost $10,443,693)		**8,576,227**
France 8.6%		
Aeroports de Paris	20,400	1,541,491
Dassault Systemes SA (a)	137,100	12,879,443
Klepierre (REIT)	34,000	1,120,381
Publicis Groupe (a)	26,000	1,189,020
Unibail-Rodamco SE (REIT)	7,700	1,420,619
(Cost $16,593,782)		**18,150,954**
Germany 11.2%		
Adidas AG	111,500	7,997,093
BASF SE	10,400	722,682
Deutsche Post AG (Registered)	505,000	8,944,111
Hannover Rueckversicherung AG (Registered)	36,800	2,185,108
Lanxess AG	7,400	466,783
SAP AG	46,550	2,748,941
Siemens AG (Registered)	7,100	596,810
(Cost $23,688,774)		**23,661,528**
Hong Kong 5.5%		
BOC Hong Kong (Holdings) Ltd.	3,426,000	10,543,717
Noble Group Ltd.	1,270,000	1,133,897
(Cost $10,881,025)		**11,677,614**
Israel 0.9%		
Bezeq Israeli Telecommunication Corp., Ltd. (Cost $3,519,135)	1,789,000	**1,893,010**
Italy 4.1%		
Snam SpA	1,722,000	7,676,683
UniCredit SpA*	261,000	988,997
(Cost $10,252,410)		**8,665,680**
Japan 21.2%		
Bridgestone Corp. (a)	65,700	1,507,010
Canon, Inc. (a)	115,000	4,604,918
Central Japan Railway Co.	210	1,659,633
Fast Retailing Co., Ltd.	28,300	5,681,150
Honda Motor Co., Ltd.	95,992	3,343,846
JGC Corp.	118,000	3,415,306
Kyushu Electric Power Co., Inc.	76,000	901,588
Marubeni Corp.	69,000	459,246
Mitsubishi Corp.	24,409	492,906
Mitsubishi Electric Corp.	119,000	991,811
Mitsubishi Estate Co., Ltd.	196,000	3,516,068
Mitsubishi Heavy Industries Ltd.	106,000	430,415
Mitsui & Co., Ltd.	446,000	6,617,186
Mizuho Financial Group, Inc.	408,000	690,676
Nabtesco Corp.	117,900	2,621,367
Nidec Corp. (a)	33,500	2,540,457
Nintendo Co., Ltd.	2,600	303,379
Nomura Holdings, Inc.	110,000	410,800
Resona Holdings, Inc.	442,000	1,824,303
Sony Corp.	52,000	739,992
Sumitomo Mitsui Financial Group, Inc.	55,800	1,840,779
Sumitomo Realty & Development Co., Ltd.	9,000	221,443
(Cost $46,830,417)		**44,814,279**
Netherlands 7.1%		
Corio NV (REIT)	46,710	2,057,400
ING Groep NV (CVA)*	607,857	4,101,106
Royal Dutch Shell PLC "B"	251,600	8,780,893
(Cost $15,640,055)		**14,939,399**
Norway 1.4%		
DnB ASA (Cost $3,994,337)	298,000	**2,964,579**
Portugal 0.5%		
Banco Comercial Portugues SA "R"* (a) (Cost $1,861,973)	7,980,000	**993,387**
Singapore 0.7%		
Capitaland Ltd.	565,000	1,219,676
Wilmar International Ltd.	100,000	287,484
(Cost $1,542,567)		**1,507,160**
Sweden 6.8%		
TeliaSonera AB (Cost $15,788,001)	2,240,000	**14,330,144**
Switzerland 3.3%		
Nestle SA (Registered)	19,000	1,133,377
Schindler Holding AG	3,000	335,490
Swiss Life Holding AG (Registered)*	16,800	1,585,326
Zurich Insurance Group AG*	17,900	4,038,592
(Cost $7,767,549)		**7,092,785**
United Kingdom 10.6%		
BHP Billiton PLC	11,300	322,688
BP PLC	110,000	737,018
Cairn Energy PLC*	161,000	668,806
Capita PLC	380,000	3,907,428
Centrica PLC	1,593,000	7,941,394
GlaxoSmithKline PLC	201,600	4,571,451
Inmarsat PLC	390,000	2,999,987
Old Mutual PLC	508,285	1,209,691
(Cost $22,539,729)		**22,358,463**
Total Common Stocks (Cost $212,691,239)		**200,320,580**
Preferred Stocks 0.2%		
Germany		
Volkswagen AG (Cost $370,777)	2,300	**364,659**

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

	Shares	Value ($)
Securities Lending Collateral 11.1%		
Daily Assets Fund Institutional, 0.24% (b) (c) (Cost $23,586,636)	23,586,636	**23,586,636**
Cash Equivalents 2.6%		
Central Cash Management Fund, 0.14% (b) (Cost $5,416,911)	5,416,911	**5,416,911**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $242,065,563)†	108.7	**229,688,786**
Other Assets and Liabilities, Net	(8.7)	**(18,311,979)**
Net Assets	100.0	**211,376,807**

* Non-income producing security.

† The cost for federal income tax purposes was $243,214,000. At June 30, 2012, net unrealized depreciation for all securities based on tax cost was $13,525,214. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $5,299,201 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $18,824,415.

(a) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2012 amounted to $22,993,750, which is 10.9% of net assets.

(b) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(c) Represents collateral held in connection with securities lending. Income earned by the Fund is net of borrower rebates.

CVA: Certificaten Van Aandelen

REIT: Real Estate Investment Trust

At June 30, 2012, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
S&P 500 E-Mini Index	USD	9/21/2012	160	10,851,200	**449,200**

Currency Abbreviation	
USD	United States Dollar

For information on the Fund's policy and additional disclosures regarding futures contracts, please refer to the Derivatives section of Note B in the accompanying Notes to Financial Statements.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2012 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common and Preferred Stocks (d)				
Australia	$ —	$ 18,695,371	$ —	$ 18,695,371
Finland	—	8,576,227	—	8,576,227
France	—	18,150,954	—	18,150,954
Germany	—	24,026,187	—	24,026,187
Hong Kong	—	11,677,614	—	11,677,614
Israel	—	1,893,010	—	1,893,010
Italy	—	8,665,680	—	8,665,680
Japan	—	44,814,279	—	44,814,279
Netherlands	—	14,939,399	—	14,939,399
Norway	—	2,964,579	—	2,964,579
Portugal	—	993,387	—	993,387
Singapore	—	1,507,160	—	1,507,160
Sweden	—	14,330,144	—	14,330,144
Switzerland	—	7,092,785	—	7,092,785
United Kingdom	—	22,358,463	—	22,358,463
Short-Term Investments (d)	29,003,547	—	—	29,003,547
Derivatives (e)	449,200	—	—	449,200
Total	**$ 29,452,747**	**$ 200,685,239**	**$ —**	**$ 230,137,986**

There have been no transfers between Level 1 and Level 2 fair value measurements during the period ended June 30, 2012.

(d) See Investment Portfolio for additional detailed categorizations.

(e) Derivatives include unrealized appreciation (depreciation) on futures contracts.

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

Statement of Assets and Liabilities

as of June 30, 2012 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $213,062,016) — including $22,993,750 of securities loaned	$	200,685,239
Investment in Daily Assets Fund Institutional (cost $23,586,636)*		23,586,636
Investment in Central Cash Management Fund (cost $5,416,911)		5,416,911
Total investments, at value (cost $242,065,563)		229,688,786
Foreign currency, at value (cost $3,936,847)		3,826,372
Deposit with broker for futures contracts		560,000
Receivable for Fund shares sold		43,942
Interest receivable		28,264
Dividends receivable		652,648
Receivable for variation margin on futures contracts		272,000
Foreign taxes recoverable		197,588
Other assets		126
Total assets		235,269,726
Liabilities		
Payable for Fund shares redeemed		31,843
Payable upon return of securities loaned		23,586,636
Accrued Trustees' fees		1,742
Accrued management fee		132,014
Other accrued expenses and payables		140,684
Total liabilities		23,892,919
Net assets, at value	**$**	**211,376,807**
Net Assets Consist of		
Undistributed net investment income		5,139,958
Net unrealized appreciation (depreciation) on:		
Investments		(12,376,777)
Futures		449,200
Foreign currency		(119,347)
Accumulated net realized gain (loss)		(143,685,859)
Paid-in capital		361,969,632
Net assets, at value	**$**	**211,376,807**
Class A		
Net Asset Value, offering and redemption price per share ($211,122,694 ÷ 30,377,037 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**6.95**
Class B		
Net Asset Value, offering and redemption price per share ($254,113 ÷ 36,487 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**6.96**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2012 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $477,176)	$	6,059,403
Interest		568
Income distributions — Central Cash Management Fund		2,867
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		305,051
Total income		6,367,889
Expenses:		
Management fee		863,914
Administration fee		109,356
Services to shareholders		3,639
Custodian fee		27,928
Distribution service fee (Class B)		319
Professional fees		32,630
Reports to shareholders		40,496
Trustees' fees and expenses		5,916
Other		21,436
Total expenses		1,105,634
Net investment income (loss)		**5,262,255**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(13,167,021)
Futures		676,511
Foreign currency		(88,512)
		(12,579,022)
Change in net unrealized appreciation (depreciation) on:		
Investments		18,457,326
Futures		274,825
Foreign currency		51,518
		18,783,669
Net gain (loss)		**6,204,647**
Net increase (decrease) in net assets resulting from operations	**$**	**11,466,902**

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, 2012 (Unaudited)	Year Ended December 31, 2011
Operations:		
Net investment income (loss)	$ 5,262,255	$ 5,039,870
Net realized gain (loss)	(12,579,022)	19,998,084
Change in net unrealized appreciation (depreciation)	18,783,669	(67,950,795)
Net increase (decrease) in net assets resulting from operations	11,466,902	(42,912,841)
Distributions to shareholders from:		
Net investment income:		
Class A	(4,756,093)	(4,647,186)
Class B	(4,778)	(4,542)
Total distributions	(4,760,871)	(4,651,728)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,819,629	8,968,575
Reinvestment of distributions	4,756,093	4,647,186
Payments for shares redeemed	(14,966,643)	(43,581,738)
Net increase (decrease) in net assets from Class A share transactions	(6,390,921)	(29,965,977)
Class B		
Proceeds from shares sold	33,451	17,120
Reinvestment of distributions	4,778	4,542
Payments for shares redeemed	(25,787)	(100,644)
Net increase (decrease) in net assets from Class B share transactions	12,442	(78,982)
Increase (decrease) in net assets	327,552	(77,609,528)
Net assets at beginning of period	211,049,255	288,658,783
Net assets at end of period (including undistributed net investment income of $5,139,958 and $4,638,574, respectively)	**$ 211,376,807**	**$ 211,049,255**

Other Information		
Class A		
Shares outstanding at beginning of period	31,267,358	35,091,522
Shares sold	536,780	1,212,691
Shares issued to shareholders in reinvestment of distributions	650,628	539,116
Shares redeemed	(2,077,729)	(5,575,971)
Net increase (decrease) in Class A shares	(890,321)	(3,824,164)
Shares outstanding at end of period	**30,377,037**	**31,267,358**
Class B		
Shares outstanding at beginning of period	34,893	44,527
Shares sold	4,578	2,218
Shares issued to shareholders in reinvestment of distributions	652	526
Shares redeemed	(3,636)	(12,378)
Net increase (decrease) in Class B shares	1,594	(9,634)
Shares outstanding at end of period	**36,487**	**34,893**

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

Financial Highlights

Class A	Six Months Ended 6/30/12 (Unaudited)	Years Ended December 31, 2011	2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$ 6.74**	**$ 8.22**	**$ 8.26**	**$ 6.52**	**$15.01**	**$13.42**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.17	.15	.13	.12	.29[c]	.21[c]
Net realized and unrealized gain (loss)	.20	(1.49)	(.00)***	1.93	(6.46)	1.73
Total from investment operations	.37	(1.34)	.13	2.05	(6.17)	1.94
Less distributions from:						
Net investment income	(.16)	(.14)	(.17)	(.31)	(.17)	(.35)
Net realized gains	—	—	—	—	(2.15)	—
Total distributions	(.16)	(.14)	(.17)	(.31)	(2.32)	(.35)
Net asset value, end of period	**$ 6.95**	**$ 6.74**	**$ 8.22**	**$ 8.26**	**$ 6.52**	**$15.01**
Total Return (%)	5.34**	(16.67)	1.62[b]	33.52	(48.21)[b,d]	14.59
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	211	211	288	344	297	702
Ratio of expenses before expense reductions (%)	1.01*	1.00	.99	.94	1.01	.98
Ratio of expenses after expense reductions (%)	1.01*	1.00	.99	.94	.97	.98
Ratio of net investment income (loss) (%)	2.39****	1.98	1.68	1.69	2.74[c]	1.48[c]
Portfolio turnover rate (%)	51**	174	228	81	123	108

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

c Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.09 and $0.05 per share and 0.82% and 0.33% of average daily net assets for the years ended December 31, 2008 and 2007, respectively.

d Includes a reimbursement from the Advisor to reimburse the effect of losses incurred as the result of certain operation errors during the period. Excluding this reimbursement, total return would have been 0.06% lower.

* Annualized

** Not annualized

*** Amount is less than $.005.

**** Not annualized. The ratio for the six months ended June 30, 2012 has not been annualized, since the Fund believes it would be not be appropriate because the Fund's dividend income is not earned ratably throughout the year.

Class B	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$ 6.75**	**$ 8.22**	**$ 8.26**	**$ 6.52**	**$14.98**	**$13.38**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.17	.13	.11	.10	.23[c]	.16[c]
Net realized and unrealized gain (loss)	.18	(1.48)	(.00)***	1.94	(6.43)	1.73
Total from investment operations	.35	(1.35)	.11	2.04	(6.20)	1.89
Less distributions from:						
Net investment income	(.14)	(.12)	(.15)	(.30)	(.11)	(.29)
Net realized gains	—	—	—	—	(2.15)	—
Total distributions	(.14)	(.12)	(.15)	(.30)	(2.26)	(.29)
Net asset value, end of period	**$ 6.96**	**$ 6.75**	**$ 8.22**	**$ 8.26**	**$ 6.52**	**$14.98**
Total Return (%)	5.04**	(16.77)	1.33[b]	32.89	(48.25)[b,d]	14.25[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	.25	.24	.36	.50	.40	12
Ratio of expenses before expense reductions (%)	1.29*	1.28	1.26	1.22	1.33	1.41
Ratio of expenses after expense reductions (%)	1.29*	1.28	1.26	1.22	1.28	1.39
Ratio of net investment income (loss) (%)	2.31****	1.70	1.41	1.42	2.42[c]	1.07[c]
Portfolio turnover rate (%)	51**	174	228	81	123	108

[a] Based on average shares outstanding during the period.

[b] Total return would have been lower had certain expenses not been reduced.

[c] Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.09 and $0.05 per share and 0.82% and 0.33% of average daily net assets for the years ended December 31, 2008 and 2007, respectively.

[d] Includes a reimbursement from the Advisor to reimburse the effect of losses incurred as the result of certain operation errors during the period. Excluding this reimbursement, total return would have been 0.06% lower.

* Annualized

** Not annualized

*** Amount is less than $.005.

**** Not annualized. The ratio for the six months ended June 30, 2012 has not been annualized, since the Fund believes it would be not be appropriate because the Fund's dividend income is not earned ratably throughout the year.

Notes to Financial Statements

(Unaudited)

A. Organization and Significant Accounting Policies

DWS 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 five diversified funds: DWS Bond VIP, DWS Core Equity VIP (formerly DWS Growth & Income VIP), DWS Capital Growth VIP, DWS Global Small Cap Growth VIP and DWS International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on DWS International VIP. 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 Fund offers two classes of shares (Class A shares and Class B shares). Class B shares are subject to Rule 12b-1 distribution fees under the 1940 Act and recordkeeping 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 Fund. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain fund-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 fees and recordkeeping 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 Fund'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 Fund in the preparation of its financial statements.

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.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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. For certain 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, a fair valuation model may be used. This fair valuation model takes into account comparisons to the valuation of American Depository Receipts (ADRs), exchange-traded funds, futures contracts and certain indices and these securities are categorized as Level 2.

Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Futures contracts are generally valued at the settlement prices established each day on the exchange on which they are traded and are categorized as Level 1.

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 and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market

in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the issuer of securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. 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 acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. 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 gain/appreciation and loss/depreciation on investments.

Taxes. The Fund is treated as a separate taxpayer as provided for in the Internal Revenue Code, as amended. It is the Fund's policy 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 income to the separate accounts of the Participating Insurance Companies which hold its shares.

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 Fund invests, the Fund will provide for foreign taxes, and where appropriate, deferred foreign taxes.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $124,587,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($51,383,000) and December 31, 2017 ($73,204,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2011 to December 31, 2011, the Fund elects to defer qualified late year losses of approximately $5,197,000 of net long-term realized capital losses and treat them as arising in the fiscal year ending December 31, 2012.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. The Fund will declare and distribute dividends from its net investment income, if any, annually, 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 Fund if not distributed, and, therefore, will be distributed to shareholders at least annually.

The timing and characterization of certain income and capital gain 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 foreign denominated investments, futures contracts, passive foreign investment companies 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 Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

The tax character of current year distributions will be determined at the end of the current fiscal year.

Expenses. Expenses of the Series arising in connection with a specific Fund are allocated to that Fund. Other Series expenses which cannot be directly attributed to a Fund are apportioned among the Funds in the Series.

Contingencies. In the normal course of business, the Fund may enter into contracts with service providers that contain general 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 been made. However, based on experience, the Fund expects 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 net of foreign withholding taxes. 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 Fund is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Derivative Instruments

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). For the six months ended June 30, 2012, the Fund entered into futures contracts in circumstances where portfolio management believed they offered an economic means of gaining exposure to a particular asset class or to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the market.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange-traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts disclosed in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of June 30, 2012 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $8,911,000 to $10,851,000.

Asset Derivative	**Futures Contracts**
Equity Contracts (a)	$ 449,200

The above derivative is located in the following Statement of Assets and Liabilities account:

(a) Includes cumulative appreciation of futures contracts as disclosed in the Investment Portfolio. Unsettled variation margin is disclosed separately within the Statement of Assets and Liabilities.

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2012 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Futures Contracts**
Equity Contracts (a)	$ 676,511

The above derivative is located in the following Statement of Operations account:

(a) Net realized gain (loss) from futures

Change in Net Unrealized Appreciation (Depreciation)	Futures Contracts
Equity Contracts (a)	$ 274,825

The above derivative is located in the following Statement of Operations account:

(a) Change in net unrealized appreciation (depreciation) on futures

C. Purchases and Sales of Securities

During the six months ended June 30, 2012, purchases and sales of investment securities (excluding short-term investments) aggregated $106,677,052 and $113,583,586, respectively.

D. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund 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 Fund.

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays a monthly management fee based on the Fund's average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

First $500 million of average daily net assets	.790%
Over $500 million of average daily net assets	.640%

Accordingly, for the six months ended June 30, 2012, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate of 0.79% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays the Advisor an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the six months ended June 30, 2012, the Administration Fee was $109,356, of which $16,711 is unpaid.

Service Provider Fees. DWS Investments Service Company ("DISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2012, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2012
Class A	$ 343	$ 110
Class B	40	13
	$ 383	**$ 123**

Distribution Service Agreement. DWS Investments Distributors, Inc. ("DIDI"), also an affiliate of the Advisor, is the Series' Distributor. In accordance with the Master Distribution Plan, DIDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, DIDI 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. For the six months ended June 30, 2012, the Distribution Service Fee aggregated $319, of which $50 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2012, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $13,342, of which $4,370 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the six months ended June 30, 2012, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $32,650.

E. Ownership of the Fund

Two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 41% and 13%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $375 million revolving credit facility provided by a syndication of banks. The Fund may borrow 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 on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at June 30, 2012.

Information About Your Fund's Expenses (Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (January 1, 2012 to June 30, 2012).

The tables illustrate your Fund's expenses in two ways:

- **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund'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% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund'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. 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, 2012

Actual Fund Return	Class A	Class B
Beginning Account Value 1/1/12	$1,000.00	$1,000.00
Ending Account Value 6/30/12	$1,053.40 ,	$1,050.40
Expenses Paid per $1,000*	$ 5.16	$ 6.58
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/12	$1,000.00	$1,000.00
Ending Account Value 6/30/12	$1,019.84	$1,018.45
Expenses Paid per $1,000*	$ 5.07	$ 6.47

* Expenses are equal to the Fund's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by 182 (the number of days in the most recent six-month period), then divided by 366.

Annualized Expense Ratios	Class A	Class B
DWS Variable Series I — DWS International VIP	1.01%	1.29%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

Proxy Voting

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 are available on our Web site — www.dws-investments.com (click on "proxy voting"at the bottom of the page) — 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) 728-3337.

Summary of Management Fee Evaluation by Independent Fee Consultant

September 26, 2011

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds (formerly the DWS Scudder Funds). My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2011, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007, 2008, 2009 and 2010.

Qualifications

For more than 35 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past ten years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds and have served in various leadership and financial oversight capacities with non-profit organizations.

Evaluation of Fees for each DWS Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 109 mutual fund portfolios in the DWS Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

- The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.
- The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

DeAM's Fees for Similar Services to Others

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Fund. These similar products included the other DWS Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

Costs and Profit Margins

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

Economies of Scale

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Fund compares with this industry observation, I reviewed:

- The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.
- Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.
- How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

Quality of Service — Performance

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

Complex-Level Considerations

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

- I reviewed DeAM's profitability analysis for all DWS Funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.
- I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.
- I considered how aggregated DWS Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.
- I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

Findings

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Funds are reasonable.

Thomas H. Mack
President, Thomas H. Mack & Co., Inc.

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS1int-3 (R-028378-1 8/12)

JUNE 30, 2012

SEMIANNUAL REPORT

DWS VARIABLE SERIES II

DWS Money Market VIP

DWS INVESTMENTS
Deutsche Bank Group

Contents

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus or summary prospectus, if available, call (800) 728-3337 or your financial representative. We advise you to consider the Fund's objectives, risks, charges and expenses carefully before investing. The summary prospectus and prospectus contain this and other important information about the Fund. Please read the prospectus carefully before you invest.

An investment in this Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or by any other government agency. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the Fund. The share price of money market funds can fall below the $1.00 share price. You should not rely on or expect the Advisor to enter into support agreements or take other actions to maintain the Fund's $1.00 share price. The credit quality of the Fund's holdings can change rapidly in certain markets, and the default of a single holding could have an adverse impact on the Fund's share price. The Fund's share price can also be negatively affected during periods of high redemption pressures and/or illiquid markets. The actions of a few large investors in the Fund may have a significant adverse effect on the share price of the Fund. See the prospectus for specific details regarding the Fund's risk profile.

DWS Investments is part of Deutsche Bank's Asset Management division and, within the U.S., represents the retail asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.

NOT FDIC/NCUA INSURED   NO BANK GUARANTEE   MAY LOSE VALUE   NOT A DEPOSIT
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

Performance Summary

June 30, 2012 (Unaudited)

DWS Money Market VIP

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 contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. The yield quotation more closely reflects the current earnings of the Fund than the total return quotation.

An investment in this Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or by any other government agency. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the Fund. The share price of money market funds can fall below the $1.00 share price.

Fund's Class A Shares Yield	7-day current yield
June 30, 2012	0.01%*
December 31, 2011	0.01%*

* The investment advisor has agreed to waive fees/reimburse expenses. Without such fee waivers/expense reimbursements, the 7-day current yield would have been lower.

Yields are historical, will fluctuate and do not guarantee future performance. The 7-day current yield refers to the income paid by the Fund over a 7-day period expressed as an annual percentage rate of the Fund's shares outstanding.

Portfolio Summary (Unaudited)

Asset Allocation (As a % of Investment Portfolio)	**6/30/12**	**12/31/11**
Commercial Paper	45%	36%
Short-Term Notes	16%	16%
Certificates of Deposit and Bank Notes	14%	18%
Repurchase Agreements	13%	18%
Government & Agency Obligations	11%	12%
Time Deposits	1%	—
	100%	100%

Weighted Average Maturity*	**6/30/12**	**12/31/11**
DWS Variable Series II — DWS Money Market VIP	39 days	43 days
First Tier Retail Money Fund Average	40 days	38 days

* The Fund is compared to its respective iMoneyNet Category: First Tier Retail Money Fund Average — Category includes a widely recognized composite of money market funds that invest in only first tier (highest rating) 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 Commercial Paper, Floating Rate Notes and Asset Backed Commercial Paper.

Weighted average maturity, also known as effective maturity, is the weighted average of the maturity date of bonds held by the Fund taking into consideration any available maturity shortening features.

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 5.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. In addition, each month, information about the Fund and its portfolio holdings is filed with the SEC on Form N-MFP. The SEC delays the public availability of the information filed on Form N-MFP for 60 days after the end of the reporting period included in the filing. These forms will be available on the SEC's Web site at www.sec.gov, and they may also 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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Investment Portfolio

June 30, 2012 (Unaudited)

	Principal Amount ($)	Value ($)

Certificates of Deposit and Bank Notes 13.6%

	Principal Amount ($)	Value ($)
Banco del Estado de Chile, 0.44%, 7/20/2012	1,000,000	1,000,000
Bank of Tokyo-Mitsubishi UFJ Ltd., 0.35%, 8/14/2012	2,000,000	2,000,244
China Construction Bank Corp.:		
0.4%, 7/25/2012	1,000,000	1,000,000
0.4%, 8/1/2012	400,000	400,000
0.47%, 7/3/2012	500,000	500,000
0.51%, 7/10/2012	1,000,000	1,000,000
DZ Bank:		
0.3%, 8/21/2012	2,000,000	2,000,000
0.33%, 8/23/2012	1,700,000	1,700,000
Industrial & Commercial Bank of China:		
0.35%, 8/3/2012	500,000	500,000
0.4%, 7/30/2012	2,000,000	2,000,000
Mizuho Corporate Bank Ltd., 0.23%, 7/20/2012	1,800,000	1,800,000
Nordea Bank Finland PLC:		
0.28%, 9/18/2012	2,000,000	1,999,868
0.29%, 9/7/2012	1,000,000	1,000,000
Rabobank Nederland NV, 0.35%, 8/16/2012	2,500,000	2,500,032
Skandinaviska Enskilda Banken AB:		
0.25%, 8/3/2012	2,500,000	2,500,000
0.27%, 7/24/2012	1,500,000	1,500,000
0.47%, 7/18/2012	1,000,000	1,000,104
0.49%, 8/23/2012	1,500,000	1,500,000
Svenska Handelsbanken AB, 0.31%, 9/28/2012	3,000,000	3,000,037
Total Certificates of Deposit and Bank Notes (Cost $28,900,285)		**28,900,285**

Collateralized Mortgage Obligation 0.2%

	Principal Amount ($)	Value ($)
The Superannuation Members Home Loan Programme, "A1", Series 2012-1, 0.644%*, 3/20/2013 (Cost $500,000)	500,000	**500,000**

Commercial Paper 44.8%

Issued at Discount** 41.3%

	Principal Amount ($)	Value ($)
Alpine Securitization, 144A, 0.25%, 7/25/2012	2,000,000	1,999,667
ASB Finance Ltd., 0.58%, 7/12/2012	2,000,000	1,999,646
Barclays Bank PLC, 0.22%, 7/6/2012	1,000,000	999,969
BNZ International Funding Ltd., 144A, 0.58%, 7/12/2012	1,500,000	1,499,734
Coca-Cola Co., 0.23%, 9/5/2012	1,000,000	999,578
Collateralized Commercial Paper Co., LLC:		
0.25%, 7/26/2012	5,500,000	5,499,045
0.45%, 10/16/2012	2,500,000	2,496,656
DNB Bank ASA, 0.305%, 9/11/2012	1,000,000	999,390
Erste Abwicklungsanstalt:		
0.385%, 9/10/2012	1,000,000	999,241
0.52%, 12/4/2012	1,500,000	1,496,620
0.54%, 11/9/2012	1,000,000	998,035
0.57%, 8/31/2012	500,000	499,517
0.57%, 1/8/2013	400,000	398,790
0.58%, 10/18/2012	800,000	798,595
0.68%, 8/13/2012	800,000	799,350
0.72%, 9/4/2012	500,000	499,350
0.8%, 8/13/2012	600,000	599,427
0.83%, 8/2/2012	1,000,000	999,262
Gotham Funding Corp., 144A, 0.22%, 8/1/2012	3,000,000	2,999,432
Hannover Funding Co., LLC:		
0.499%, 8/7/2012	1,000,000	999,486
0.5%, 7/16/2012	1,000,000	999,792
0.5%, 8/17/2012	500,000	499,674
Kells Funding LLC:		
144A, 0.51%, 10/5/2012	1,000,000	998,640
144A, 0.54%, 10/1/2012	3,500,000	3,495,170
144A, 0.58%, 11/2/2012	1,000,000	998,002
144A, 0.59%, 8/23/2012	1,000,000	999,131
144A, 0.65%, 8/3/2012	1,000,000	999,404
144A, 0.68%, 8/21/2012	1,000,000	999,037
Kreditanstal Fuer Wiederaufbau, 144A, 0.225%, 7/13/2012	1,000,000	999,925
Liberty Street Funding LLC, 144A, 0.1%, 7/2/2012	4,000,000	3,999,989
National Australia Funding (Delaware), Inc., 144A, 0.2%, 8/8/2012	1,000,000	999,789
Nieuw Amsterdam Receivables Corp., 144A, 0.2%, 7/20/2012	5,000,000	4,999,472
Nordea North America, Inc., 0.59%, 8/15/2012	400,000	399,705
NRW.Bank:		
0.26%, 8/1/2012	4,000,000	3,999,104
0.315%, 9/6/2012	1,000,000	999,414
0.37%, 9/25/2012	2,000,000	1,998,232
Regency Markets No. 1 LLC, 144A, 0.2%, 7/12/2012	1,000,000	999,936
SBAB Bank AB:		
144A, 0.48%, 9/5/2012	1,000,000	999,120
144A, 0.51%, 8/1/2012	1,000,000	999,561
144A, 0.51%, 9/14/2012	1,000,000	998,937
144A, 0.55%, 9/24/2012	2,000,000	1,997,403
144A, 0.55%, 9/25/2012	1,500,000	1,498,029
144A, 0.58%, 7/3/2012	3,000,000	2,999,903
Skandinaviska Enskilda Banken AB:		
0.27%, 8/24/2012	2,500,000	2,498,987
0.485%, 7/11/2012	1,500,000	1,499,798
Societe Generale North America, Inc., 0.2%, 7/2/2012	3,500,000	3,499,981
Standard Chartered Bank:		
0.28%, 7/2/2012	3,500,000	3,499,973
0.36%, 10/9/2012	1,500,000	1,498,500
Starbird Funding Corp., 144A, 0.2%, 7/2/2012	650,000	649,996
UOB Funding LLC, 0.3%, 11/5/2012	1,000,000	998,942
Victory Receivables Corp.:		
144A, 0.2%, 7/5/2012	1,000,000	999,978
144A, 0.2%, 7/12/2012	1,000,000	999,939
144A, 0.22%, 7/23/2012	1,000,000	999,866
Westpac Banking Corp., 0.56%, 8/14/2012	1,000,000	999,316
Windmill Funding Corp., 144A, 0.25%, 7/2/2012	2,000,000	1,999,986
		87,603,421

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

	Principal Amount ($)	Value ($)
Issued at Par 3.5%		
ASB Finance Ltd., 144A, 0.49%*, 2/13/2013	1,500,000	1,500,000
Australia & New Zealand Banking Group Ltd., 144A, 0.295%*, 11/26/2012	3,000,000	3,000,000
Kells Funding LLC, 144A, 0.575%*, 1/17/2013	1,500,000	1,500,000
Westpac Banking Corp., 144A, 0.525%*, 10/26/2012	1,500,000	1,500,000
		7,500,000
Total Commercial Paper (Cost $95,103,421)		**95,103,421**

	Principal Amount ($)	Value ($)
Short-Term Notes* 15.4%		
Bank of Nova Scotia:		
0.38%, 12/14/2012	2,500,000	2,500,000
0.546%, 12/11/2012	1,000,000	1,000,000
0.668%, 10/1/2012	1,000,000	1,000,436
Canadian Imperial Bank of Commerce:		
0.485%, 4/26/2013	1,500,000	1,500,000
0.515%, 2/7/2013	1,000,000	1,000,000
0.52%, 4/26/2013	2,500,000	2,500,000
Commonwealth Bank of Australia, 144A, 0.5%, 3/1/2013	3,000,000	3,000,000
JPMorgan Chase Bank NA, 0.527%, 12/7/2012	2,000,000	2,000,000
National Australia Bank Ltd.:		
0.295%, 10/29/2012	1,000,000	1,000,000
0.5%, 3/8/2013	1,500,000	1,500,000
Nordea Bank Finland PLC, 0.867%, 9/13/2012	1,500,000	1,500,739
Queensland Treasury Corp., 0.5%, 11/19/2012	2,000,000	2,000,000
Rabobank Nederland NV:		
0.392%, 8/16/2012	1,000,000	1,000,000
0.567%, 12/21/2012	1,000,000	1,000,000
0.615%, 5/7/2013	1,000,000	1,000,000
0.623%, 1/23/2013	2,000,000	2,000,000
0.669%, 10/12/2012	1,500,000	1,500,000
Royal Bank of Canada:		
0.55%, 6/4/2013	1,000,000	1,000,000
0.55%, 6/13/2013	1,500,000	1,500,000
Sumitomo Mitsui Banking Corp., 0.34%, 3/15/2013	1,000,000	1,000,000
Svensk Exportkredit AB, 144A, 0.44%, 5/22/2013	700,000	700,000
Svenska Handelsbanken AB, 144A, 0.426%, 8/7/2012	750,000	750,000
Westpac Banking Corp., 0.33%, 7/11/2012	750,000	750,000
Total Short-Term Notes (Cost $32,701,175)		**32,701,175**

	Principal Amount ($)	Value ($)
Time Deposit 1.4%		
Royal Bank of Canada, 0.12%, 7/2/2012 (Cost $3,000,000)	3,000,000	**3,000,000**
Government & Agency Obligations 10.9%		
U.S. Government Sponsored Agencies 4.7%		
Federal Home Loan Bank:		
0.069%**, 8/2/2012	1,200,000	1,199,925
0.159%**, 11/13/2012	1,000,000	999,400
0.17%, 1/23/2013	800,000	799,895
0.17%*, 11/8/2013	500,000	499,730
0.23%, 8/24/2012	1,200,000	1,200,074
Federal Home Loan Mortgage Corp.:		
0.099%**, 10/2/2012	1,250,000	1,249,677
0.118%**, 8/28/2012	1,000,000	999,807
0.127%**, 8/14/2012	2,000,000	1,999,682
0.179%**, 1/9/2013	1,000,000	999,040
		9,947,230
U.S. Treasury Obligations 6.2%		
U.S. Treasury Notes:		
0.375%, 8/31/2012	2,130,000	2,130,796
0.375%, 9/30/2012	1,000,000	1,000,613
0.625%, 7/31/2012	4,000,000	4,001,652
1.375%, 10/15/2012	3,500,000	3,512,346
3.375%, 11/30/2012	1,000,000	1,013,283
4.0%, 11/15/2012	1,500,000	1,521,410
		13,180,100
Total Government & Agency Obligations (Cost $23,127,330)		**23,127,330**
Repurchase Agreements 13.2%		
BNP Paribas, 0.19%, dated 6/29/2012, to be repurchased at $11,000,174 on 7/2/2012 (a)	11,000,000	11,000,000
Credit Suisse Securities (U.S.A.) LLC, 0.42%, dated 6/12/2012, to be repurchased at $1,500,613 on 7/17/2012 (b)	1,500,000	1,500,000
JPMorgan Securities, Inc, 0.14%, dated 6/29/2012, to be repurchased at $4,000,047 on 7/2/2012 (c)	4,000,000	4,000,000
JPMorgan Securities, Inc, 0.22%, dated 6/29/2012, to be repurchased at $2,000,037 on 7/2/2012 (d)	2,000,000	2,000,000
Merrill Lynch & Co., Inc., 0.14%, dated 6/29/2012, to be repurchased at $9,523,458 on 7/2/2012 (e)	9,523,347	9,523,347
Total Repurchase Agreements (Cost $28,023,347)		**28,023,347**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $211,355,558)†	99.5	**211,355,558**
Other Assets and Liabilities, Net	0.5	**1,012,488**
Net Assets	100.0	**212,368,046**

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

* Floating rate securities' yields vary with a designated market index or market rate, such as the coupon-equivalent of the U.S. Treasury Bill rate. These securities are shown at their current rate as of June 30, 2012.

** Annualized yield at time of purchase; not a coupon rate.

† The cost for federal income tax purposes was $211,355,558.

(a) Collateralized by $10,477,314 Federal National Mortgage Association, 4.0%, with various maturity dates of 1/1/2042–2/1/2042 with a value of $11,220,000.

(b) Collateralized by:

Principal Amount ($)	Security	Rate (%)	Maturity Date	Collateral Value ($)
380,000	Express Scripts Holding Co.	6.125	11/15/2041	394,550
931,266	Newcrest Finance Property Ltd.	4.45	11/15/2021	1,154,309
Total Collateral Value				**1,548,859**

(c) Collateralized by $3,926,700 U.S. Treasury Notes, with various coupon rates 1.375–3.125%, with various maturity dates of 8/31/2013–2/28/2019 with a value of $4,081,460.

(d) Collateralized by $2,055,000 Ally Auto Receivables Trust, 1.06%, maturing on 5/15/2017 with a value of $2,060,250.

(e) Collateralized by $9,527,700 U.S. Treasury Note, 1.25%, maturing on 3/15/2014 with a value of $9,713,857.

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.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Securities held by the Fund are reflected as Level 2 because the securities are valued at amortized cost (which approximates fair value) and, accordingly, the inputs used to determine value are not quoted prices in an active market.

The following is a summary of the inputs used as of June 30, 2012 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Investments in Securities (f)	$ —	$183,332,211	$ —	$183,332,211
Repurchase Agreements	—	28,023,347	—	28,023,347
Total	**$ —**	**$211,355,558**	**$ —**	**$211,355,558**

There have been no transfers between Level 1 and Level 2 fair value measurements during the period ended June 30, 2012.

(f) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of June 30, 2012 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, valued at amortized cost	$	183,332,211
Repurchase agreements, valued at amortized cost		28,023,347
Total investments, valued at amortized cost		211,355,558
Cash		252
Receivable for investments sold		1,279,000
Receivable for Fund shares sold		171,823
Interest receivable		82,230
Other assets		265
Total assets		212,889,128
Liabilities		
Payable for Fund shares redeemed		392,953
Distributions payable		754
Accrued management fee		31,681
Accrued Trustees' fees		3,637
Other accrued expenses and payables		92,057
Total liabilities		521,082
Net assets, at value	**$**	**212,368,046**
Net Assets Consist of		
Distributions in excess of net investment income		(659)
Accumulated net realized gain (loss)		362
Paid-in capital		212,368,343
Net assets, at value	**$**	**212,368,046**
Class A		
Net Asset Value, offering and redemption price per share ($212,368,046 ÷ 212,452,059 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**1.00**

Statement of Operations

for the six months ended June 30, 2012 (Unaudited)

Investment Income		
Income:		
Interest	$	346,109
Expenses:		
Management fee		296,426
Administration fee		104,009
Services to shareholders		660
Custodian fee		9,612
Professional fees		27,156
Reports to shareholders		30,270
Trustees' fee and expenses		8,562
Other		6,353
Total expenses		483,048
Expense reductions		(147,373)
Total expenses after expense reductions		335,675
Net investment income		**10,434**
Net realized gain (loss)		**362**
Net increase (decrease) in net assets resulting from operations	**$**	**10,796**

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, 2012 (Unaudited)	Year Ended December 31, 2011
Operations:		
Net investment income	$ 10,434	$ 21,576
Net realized gain (loss)	362	348
Net increase (decrease) in net assets resulting from operations	10,796	21,924
Distributions to shareholders from:		
Net investment income		
Class A	(10,434)	(21,576)
Total distributions	(10,434)	(21,576)
Fund share transactions:		
Class A		
Proceeds from shares sold	42,519,300	147,415,537
Reinvestment of distributions	10,674	21,589
Payments for shares redeemed	(47,114,507)	(150,401,802)
Net increase (decrease) in net assets from Class A share transactions	(4,584,533)	(2,964,676)
Increase (decrease) in net assets	(4,584,171)	(2,964,328)
Net assets at beginning of period	216,952,217	219,916,545
Net assets at end of period (including distributions in excess of net investment income of $659 and $659, respectively)	**$ 212,368,046**	**$ 216,952,217**

Other Information		
Class A		
Shares outstanding at beginning of period	217,036,592	220,001,268
Shares sold	42,519,300	147,415,537
Shares issued to shareholders in reinvestment of distributions	10,674	21,589
Shares redeemed	(47,114,507)	(150,401,802)
Net increase (decrease) in Class A shares	(4,584,533)	(2,964,676)
Shares outstanding at end of period	**212,452,059**	**217,036,592**

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

Financial Highlights

Class A	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
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	.000***	.000***	.000***	.003	.026	.049
Total from investment operations	.000***	.000***	.000***	.003	.026	.049
Less distributions from:						
Net investment income	(.000)***	(.000)***	(.000)***	(.003)	(.026)	(.049)
Net asset value, end of period	**$1.000**	**$1.000**	**$1.000**	**$1.000**	**$1.000**	**$1.000**
Total Return (%)	.01[a]**	.01[a]	.01[a]	.34	2.64[a]	5.00[a]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	212	217	220	270	398	355
Ratio of expenses before expense reductions (%)	.46*	.51	.46	.43	.52	.46
Ratio of expenses after expense reductions (%)	.32*	.25	.34	.43	.50	.45
Ratio of net investment income (%)	.01*	.01	.01	.37	2.56	4.88

a Total return would have been lower had certain expenses not been reduced.

* Annualized

** Not annualized

*** Amount is less than $.0005.

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

DWS Money Market VIP (the "Fund") is a diversified series of DWS Variable Series II (the "Trust"), which is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company organized as a Massachusetts business trust.

The Fund'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 Fund in the preparation of its financial statements.

Security Valuation. Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The Fund values all securities utilizing the amortized cost method permitted in accordance with Rule 2a-7 under the 1940 Act and certain conditions therein. Under this method, which does not take into account unrealized capital gains or losses on securities, an instrument is initially valued at its cost and thereafter assumes a constant accretion/amortization rate to maturity of any discount or premium. Securities held by the Fund are reflected as Level 2 because the securities are valued at amortized cost (which approximates fair value) and, accordingly, the inputs used to determine value are not quoted prices in an active market.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

Repurchase Agreements. The Fund may enter into repurchase agreements with certain banks and broker/dealers whereby the Fund, through its custodian or a 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 custodian or another designated sub-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 Fund has the right to sell the securities and recover any resulting loss from the financial institution. If the financial institution enters into bankruptcy, the Fund's claim on the collateral may be subject to legal proceedings.

Federal Income Taxes. The Fund's 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 income to its shareholders.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. Net investment income of the Fund is declared as a daily dividend and is distributed to shareholders monthly. The Fund may take into account capital gains and losses in its daily dividend declarations. The Fund may also make additional distributions for tax purposes if necessary.

Permanent book and tax differences relating to shareholder distributions will result in reclassifications to paid-in capital. Temporary book and tax differences will reverse in a subsequent period. There were no significant book to tax differences for the Fund.

The tax character of current year distributions will be determined at the end of the current fiscal year.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

Contingencies. In the normal course of business, the Fund may enter into contracts with service providers that contain general 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 been made. However, based on experience, the Fund expects the risk of loss to be remote.

Other. Investment transactions are accounted for on a trade date. Interest income is recorded on the accrual basis. 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

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund 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 Fund.

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays a monthly management fee based on the Fund's average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

First $500 million	.285%
Next $500 million	.270%
Next $1.0 billion	.255%
Over $2.0 billion	.240%

For the period from January 1, 2012 through September 30, 2012, the Advisor has contractually agreed to waive its fee and/or reimburse certain operating expenses to the extent necessary to maintain the operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) at 0.51%.

In addition, the Advisor has agreed to voluntarily waive additional expenses for the Fund. The waiver may be changed or terminated at any time without notice. Under this arrangement, the Advisor waived certain expenses of the Fund.

Accordingly, for the six months ended June 30, 2012, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $147,077, and the amount charged aggregated $149,349, which was equivalent to an annualized effective rate of 0.14% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the six months ended June 30, 2012, the Administration Fee was $104,009, of which $17,389 is unpaid.

Service Provider Fees. DWS Investments Service Company ("DISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2012, the amounts charged to the Fund by DISC aggregated $296, all of which was waived.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2012, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $5,550, of which $1,506 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and to each committee Chairperson.

C. Ownership of the Fund

At June 30, 2012, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 34%, 21% and 12%.

D. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $375 million revolving credit facility provided by a syndication of banks. The Fund may borrow 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 on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement: The Fund had no outstanding loans at June 30, 2012.

Information About Your Fund's Expenses (Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees and other Fund expenses. Examples of transaction costs include contract charges 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 Fund 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 Fund limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (January 1, 2012 to June 30, 2012).

The tables illustrate your Fund's expenses in two ways:

- **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund'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% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund'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. 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, 2012

Actual Fund Return	**Class A**
Beginning Account Value 1/1/12	$1,000.00
Ending Account Value 6/30/12	$1,000.10
Expenses Paid per $1,000*	$ 1.59

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/12	$1,000.00
Ending Account Value 6/30/12	$1,023.27
Expenses Paid per $1,000*	$ 1.61

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 182 (the number of days in the most recent six-month period), then divided by 366.

Annualized Expense Ratio	**Class A**
DWS Variable Series II — DWS Money Market VIP	.32%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

Proxy Voting

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 are available on our Web site — www.dws-investments.com (click on "proxy voting" at the bottom of the page) — 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) 728-3337.

Summary of Management Fee Evaluation by Independent Fee Consultant

September 26, 2011

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds (formerly the DWS Scudder Funds). My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2011, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007, 2008, 2009 and 2010.

Qualifications

For more than 35 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past ten years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds and have served in various leadership and financial oversight capacities with non-profit organizations.

Evaluation of Fees for each DWS Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 109 mutual fund portfolios in the DWS Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

- The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.
- The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

DeAM's Fees for Similar Services to Others

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Fund. These similar products included the other DWS Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

Costs and Profit Margins

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

Economies of Scale

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Fund compares with this industry observation, I reviewed:

The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.

Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.

How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

Quality of Service — Performance

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

Complex-Level Considerations

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

I reviewed DeAM's profitability analysis for all DWS Funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.

I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.

I considered how aggregated DWS Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.

I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

Findings

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Funds are reasonable.

Thomas H. Mack

Thomas H. Mack
President, Thomas H. Mack & Co., Inc.

Notes

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2MM-3 (R-028387-1 8/12)

JUNE 30, 2012

SEMIANNUAL REPORT

DWS VARIABLE SERIES II

DWS Small Mid Cap Growth VIP

DWS INVESTMENTS
Deutsche Bank Group

Contents

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus or summary prospectus, if available, call (800) 728-3337 or your financial representative. We advise you to consider the Fund's objectives, risks, charges and expenses carefully before investing. The summary prospectus and prospectus contain this and other important information about the Fund. Please read the prospectus carefully before you invest.

Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Stocks of smaller- and medium-sized companies involve greater risk than securities of larger, more-established companies. The Fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

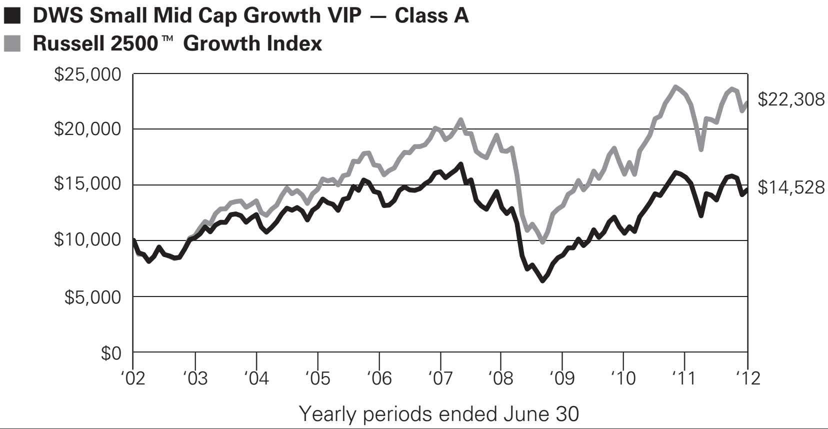
Performance Summary

June 30, 2012 (Unaudited)

Fund 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 contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns.

The gross expense ratio of the Fund, as stated in the fee table of the prospectus dated May 1, 2012 is 0.73% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Growth of an Assumed $10,000 Investment in DWS Small Mid Cap Growth VIP



The Russell 2500™ Growth Index is an unmanaged index that measures the performance of the small- to mid-cap growth segment of the U.S. equity universe. It includes those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.

Index returns do not reflect any fees or expenses and it is not possible to invest directly into an index.

Comparative Results

DWS Small Mid Cap Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,665	$9,277	$16,718	$8,989	$14,528
	Average annual total return	6.65%	–7.23%	18.68%	–2.11%	3.81%
Russell 2500 Growth Index	Growth of $10,000	$10,844	$9,681	$17,013	$11,232	$22,308
	Average annual total return	8.44%	–3.19%	19.38%	2.35%	8.35%

The growth of $10,000 is cumulative.

‡ Total returns shown for periods less than one year are not annualized.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/12**	**12/31/11**
Common Stocks	96%	98%
Cash Equivalents	4%	2%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/12**	**12/31/11**
Information Technology	23%	22%
Health Care	20%	17%
Industrials	17%	19%
Consumer Discretionary	16%	17%
Energy	7%	8%
Materials	7%	6%
Financials	6%	6%
Consumer Staples	4%	5%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 5.

Following the Fund'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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management Team

Joseph Axtell, CFA
Rafaelina M. Lee
Portfolio Managers

	Shares	Value ($)
Common Stocks 96.0%		
Consumer Discretionary 15.2%		
Auto Components 1.6%		
BorgWarner, Inc.* (a)	18,970	1,244,242
TRW Automotive Holdings Corp.*	27,381	1,006,526
		2,250,768
Hotels, Restaurants & Leisure 1.4%		
Panera Bread Co. "A"*	14,533	**2,026,482**
Household Durables 1.4%		
Jarden Corp. (a)	46,664	**1,960,821**
Media 2.1%		
Cinemark Holdings, Inc.	77,831	1,778,438
Interpublic Group of Companies, Inc.	117,895	1,279,161
		3,057,599
Specialty Retail 7.0%		
Advance Auto Parts, Inc. (a)	18,114	1,235,737
Ascena Retail Group, Inc.*	36,562	680,785
Children's Place Retail Stores, Inc.* (a)	31,673	1,578,266
DSW, Inc. "A"	30,153	1,640,323
Guess?, Inc.	31,136	945,600
PetSmart, Inc. (a)	36,100	2,461,298
Ulta Salon, Cosmetics & Fragrance, Inc.	17,632	1,646,476
		10,188,485
Textiles, Apparel & Luxury Goods 1.7%		
Deckers Outdoor Corp.* (a)	17,215	757,632
Hanesbrands, Inc.*	63,258	1,754,144
		2,511,776
Consumer Staples 3.5%		
Food Products 1.8%		
Green Mountain Coffee Roasters, Inc.* (a)	15,542	338,504
Hain Celestial Group, Inc.*	11,171	614,852
TreeHouse Foods, Inc.*	27,348	1,703,507
		2,656,863
Household Products 1.7%		
Church & Dwight Co., Inc.	42,765	**2,372,175**
Energy 7.1%		
Energy Equipment & Services 4.1%		
Core Laboratories NV (a)	15,044	1,743,600
Dresser-Rand Group, Inc.*	30,386	1,353,392
Dril-Quip, Inc.*	25,752	1,689,074
Hornbeck Offshore Services, Inc.*	28,026	1,086,848
		5,872,914
Oil, Gas & Consumable Fuels 3.0%		
Alpha Natural Resources, Inc.*	33,081	288,136
Approach Resources, Inc.* (a)	58,754	1,500,577
Energy XXI (Bermuda) Ltd. (a)	43,308	1,355,107
Rosetta Resources, Inc.* (a)	33,719	1,235,464
		4,379,284
Financials 5.4%		
Capital Markets 1.8%		
Affiliated Managers Group, Inc.*	16,674	1,824,970
Lazard Ltd. "A"	30,574	794,618
		2,619,588
Consumer Finance 0.8%		
DFC Global Corp.*	66,316	**1,222,204**
Insurance 1.8%		
W.R. Berkley Corp. (a)	65,258	**2,539,841**
Real Estate Management & Development 1.0%		
CBRE Group, Inc.*	87,473	**1,431,058**
Health Care 19.5%		
Biotechnology 2.5%		
Alkermes PLC*	58,282	989,046
Incyte Corp., Ltd.* (a)	61,974	1,406,810
Regeneron Pharmaceuticals, Inc.* (a)	10,842	1,238,373
		3,634,229
Health Care Equipment & Supplies 3.6%		
ABIOMED, Inc.* (a)	39,390	898,880
Accuray, Inc.* (a)	195,206	1,335,209
Thoratec Corp.*	49,752	1,670,672
Volcano Corp.*	47,497	1,360,789
		5,265,550
Health Care Providers & Services 7.2%		
Centene Corp.* (a)	58,367	1,760,349
DaVita, Inc.*	15,967	1,568,119
ExamWorks Group, Inc.*	94,584	1,251,346
Humana, Inc.	20,206	1,564,753
Metropolitan Health Networks, Inc.*	210,310	2,012,667
Molina Healthcare, Inc.*	54,501	1,278,593
WellCare Health Plans, Inc.*	18,359	973,027
		10,408,854
Health Care Technology 1.0%		
SXC Health Solutions Corp.* (a)	14,431	**1,431,699**
Pharmaceuticals 5.2%		
Pacira Pharmaceuticals, Inc.* (a)	170,735	2,738,589
Par Pharmaceutical Companies, Inc.*	55,980	2,023,117
Questcor Pharmaceuticals, Inc.* (a)	31,020	1,651,505
VIVUS, Inc.* (a)	38,898	1,110,149
		7,523,360
Industrials 15.9%		
Aerospace & Defense 1.4%		
BE Aerospace, Inc.*	45,706	**1,995,524**
Commercial Services & Supplies 1.7%		
Portfolio Recovery Associates, Inc.* (a)	27,689	**2,526,898**
Construction & Engineering 1.7%		
Chicago Bridge & Iron Co. NV	30,733	1,166,624
MYR Group, Inc.*	74,029	1,262,935
		2,429,559
Electrical Equipment 1.2%		
General Cable Corp.*	35,881	930,753
The Babcock & Wilcox Co.*	34,191	837,680
		1,768,433

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

	Shares	Value ($)
Machinery 6.1%		
Altra Holdings, Inc. (a)	56,839	896,919
Chart Industries, Inc.*	32,869	2,260,073
Joy Global, Inc.	23,292	1,321,355
Manitowoc Co., Inc. (a)	98,216	1,149,127
Sauer-Danfoss, Inc.	45,579	1,592,075
WABCO Holdings, Inc.*	30,374	1,607,696
		8,827,245
Professional Services 1.2%		
Robert Half International, Inc. (a)	62,533	**1,786,568**
Road & Rail 1.0%		
Kansas City Southern	20,958	**1,457,838**
Trading Companies & Distributors 1.6%		
Applied Industrial Technologies, Inc.	25,858	952,867
United Rentals, Inc.* (a)	41,158	1,401,019
		2,353,886
Information Technology 22.5%		
Communications Equipment 2.7%		
Finisar Corp.*	41,805	625,403
Harris Corp.	31,404	1,314,257
Procera Networks, Inc.* (a)	38,181	928,180
Sycamore Networks, Inc.*	68,948	1,001,125
		3,868,965
Computers & Peripherals 1.4%		
Western Digital Corp.*	65,236	**1,988,393**
Electronic Equipment, Instruments & Components 1.3%		
Cognex Corp.	40,544	1,283,218
Coherent, Inc.*	14,001	606,243
		1,889,461
Internet Software & Services 2.1%		
Equinix, Inc.*	12,514	2,198,084
Saba Software, Inc.*	98,915	917,931
		3,116,015
IT Services 5.0%		
Cardtronics, Inc.* (a)	68,253	2,061,923
MAXIMUS, Inc.	31,016	1,605,078
Syntel, Inc.	33,051	2,006,196
VeriFone Systems, Inc.* (a)	48,151	1,593,317
		7,266,514
Semiconductors & Semiconductor Equipment 2.9%		
Cavium, Inc.* (a)	39,787	1,114,036
Cypress Semiconductor Corp.*	53,862	712,056
ON Semiconductor Corp.*	175,979	1,249,451
Skyworks Solutions, Inc.*	41,472	1,135,088
		4,210,631
Software 7.1%		
Allot Communications Ltd.*	32,547	906,759
Concur Technologies, Inc.* (a)	15,238	1,037,708
Informatica Corp.*	27,864	1,180,319
Kenexa Corp.*	41,355	1,200,536
MICROS Systems, Inc.*	33,130	1,696,256
NQ Mobile, Inc. (ADR)* (a)	83,404	683,079
Parametric Technology Corp.*	54,884	1,150,368
Red Hat, Inc.*	19,554	1,104,410
Ultimate Software Group, Inc.*	15,689	1,398,204
		10,357,639
Materials 6.9%		
Chemicals 2.9%		
CF Industries Holdings, Inc.	8,632	1,672,364
Rockwood Holdings, Inc.	27,347	1,212,839
Westlake Chemical Corp. (a)	25,969	1,357,140
		4,242,343
Containers & Packaging 1.2%		
Crown Holdings, Inc.*	48,858	**1,685,113**
Metals & Mining 2.0%		
Allegheny Technologies, Inc.	18,281	582,981
Cliffs Natural Resources, Inc. (a)	11,236	553,822
Detour Gold Corp.*	31,861	641,852
Haynes International, Inc.	14,496	738,426
Thompson Creek Metals Co., Inc.*	147,580	470,780
		2,987,861
Paper & Forest Products 0.8%		
Schweitzer-Mauduit International, Inc.	17,205	**1,172,350**
Total Common Stocks (Cost $123,873,017)		**139,284,786**

Securities Lending Collateral 29.8%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.24% (b) (c) (Cost $43,185,638)	43,185,638	**43,185,638**

Cash Equivalents 4.0%

	Shares	Value ($)
Central Cash Management Fund, 0.14% (b) (Cost $5,828,534)	5,828,534	**5,828,534**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $172,887,189)†	129.8	**188,298,958**
Other Assets and Liabilities, Net	(29.8)	**(43,198,043)**
Net Assets	100.0	**145,100,915**

* Non-income producing security.

† The cost for federal income tax purposes was $173,451,065. At June 30, 2012, net unrealized appreciation for all securities based on tax cost was $14,847,893. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $24,522,844 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $9,674,951.

(a) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2012 amounted to $43,635,052, which is 30.1% of net assets.

(b) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(c) Represents collateral held in connection with securities lending. Income earned by the Fund is net of borrower rebates.

ADR: American Depositary Receipt

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

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2012 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks (d)	$139,284,786	$ —	$ —	$139,284,786
Short-Term Investments (d)	49,014,172	—	—	49,014,172
Total	**$188,298,958**	**$ —**	**$ —**	**$188,298,958**

There have been no transfers between Level 1 and Level 2 fair value measurements during the period ended June 30, 2012.

(d) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of June 30, 2012 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $123,873,017) — including $43,635,052 of securities loaned	$	139,284,786
Investment in Daily Assets Fund Institutional (cost $43,185,638)*		43,185,638
Investment in Central Cash Management Fund (cost $5,828,534)		5,828,534
Total investments in securities, at value (cost $172,887,189)		188,298,958
Cash		1,557
Foreign currency, at value (cost $279)		278
Receivable for investments sold		1,485,742
Receivable for Fund shares sold		104
Dividends receivable		47,099
Interest receivable		13,872
Other assets		1,891
Total assets		189,849,501

Liabilities		
Payable upon return of securities loaned		43,185,638
Payable for investments purchased		1,298,499
Payable for Fund shares redeemed		112,404
Accrued management fee		63,310
Accrued Trustees' fees		2,739
Other accrued expenses and payables		85,996
Total liabilities		44,748,586
Net assets, at value	**$**	**145,100,915**

Net Assets Consist of		
Net investment loss		(134,220)
Net unrealized appreciation (depreciation) on:		
Investments		15,411,769
Foreign currency		(1)
Accumulated net realized gain (loss)		(31,520,563)
Paid-in capital		161,343,930
Net assets, at value	**$**	**145,100,915**
Class A		
Net Asset Value, offering and redemption price per share ($145,100,915 ÷ 10,275,202 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**14.12**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2012 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $2,080)	$	392,061
Income distributions — Central Cash Management Fund		2,160
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		87,962
Total income		482,183
Expenses:		
Management fee		425,597
Administration fee		77,137
Services to shareholders		2,084
Custodian fee		5,706
Audit and tax fees		29,562
Legal fees		5,676
Reports to shareholders		15,314
Trustees' fees and expenses		6,426
Other		3,300
Total expenses		570,802
Net investment income (loss)		**(88,619)**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		3,677,203
Foreign currency		(360)
		3,676,843
Change in net unrealized appreciation (depreciation) on:		
Investments		6,523,734
Foreign currency		(12)
		6,523,722
Net gain (loss)		**10,200,565**
Net increase (decrease) in net assets resulting from operations	**$**	**10,111,946**

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, 2012 (Unaudited)	Year Ended December 31, 2011
Operations:		
Net investment income (loss)	$ (88,619)	$ (318,019)
Net realized gain (loss)	3,676,843	15,261,496
Change in net unrealized appreciation (depreciation)	6,523,722	(32,232,742)
Net increase (decrease) in net assets resulting from operations	10,111,946	(17,289,265)
Distributions to shareholders from:		
Net investment income:		
Class A	—	(545,355)
Total distributions	—	(545,355)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,374,721	15,498,269
Net assets acquired in tax-free reorganization (see Note F)	—	93,892,921
Reinvestment of distributions	—	545,355
Cost of shares redeemed	(14,274,866)	(33,642,074)
Net increase (decrease) in net assets from Class A share transactions	(11,900,145)	76,294,471
Increase (decrease) in net assets	(1,788,199)	58,459,851
Net assets at beginning of period	146,889,114	88,429,263
Net assets at end of period (including net investment loss and distributions in excess of net investment income of $134,220 and $45,601, respectively)	**$ 145,100,915**	**$ 146,889,114**

Other Information		
Class A		
Shares outstanding at beginning of period	11,094,343	6,384,947
Shares sold	159,479	1,084,284
Shares issued in tax-free reorganization	—	6,003,455
Shares issued to shareholders in reinvestment of distributions	—	34,959
Shares redeemed	(978,620)	(2,413,302)
Net increase (decrease) in Class A shares	(819,141)	4,709,396
Shares outstanding at end of period	**10,275,202**	**11,094,343**

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

Financial Highlights

Class A	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$13.24**	**$13.85**	**$10.70**	**$ 7.61**	**$15.07**	**$14.19**
Income (loss) from investment operations:						
Net investment income (loss)[a]	(.01)	(.03)	(.01)	(.02)	(.01)	(.01)
Net realized and unrealized gain (loss)	.89	(.50)	3.16	3.11	(7.45)	.89
Total from investment operations	.88	(.53)	3.15	3.09	(7.46)	.88
Less distributions from:						
Net investment income	—	(.08)	—	—	—	—
Net asset value, end of period	**$14.12**	**$13.24**	**$13.85**	**$10.70**	**$ 7.61**	**$15.07**
Total Return (%)	6.65**	(3.91)	29.44	40.60	(49.50)[b]	6.20[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	145	147	88	80	69	174
Ratio of expenses before expense reductions (%)	.74*	.73	.78	.77	.88	.75
Ratio of expenses after expense reductions (%)	.74*	.73	.78	.77	.85	.72
Ratio of net investment income (loss) (%)	(.11)*	(.23)	(.12)	(.22)	(.04)	(.09)
Portfolio turnover rate (%)	26**	84	64	93	67	67

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

* Annualized

** Not annualized

A. Organization and Significant Accounting Policies

DWS Small Mid Cap Growth VIP (the "Fund") is a diversified series of DWS Variable Series II (the "Trust"), which is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company organized as a Massachusetts business trust.

The Fund'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 Fund in the preparation of its financial statements.

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.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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.

Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

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 Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the issuer of securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Federal Income Taxes. The Fund's 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 income to its shareholders.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax bases capital loss carryforward of approximately $29,395,000 of pre-enactment losses, of which $5,435,000 was inherited from its mergers with DWS Turner Mid Cap Growth VIP and DWS Mid Cap Growth VIP, and which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($5,435,000) and December 31, 2017 ($23,960,000), the respective expiration dates, whichever occurs first, and which may be subject to certain limitations under Section 382–384 of the Internal Revenue Code.

In addition, from November 1, 2011 to December 31, 2011, the Fund elects to defer qualified late year losses of approximately $5,239,000 of net short-term realized capital losses and approximately $46,000 of net ordinary losses and treat them as arising in the fiscal year ending December 31, 2012.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. Net investment income of the Fund, if any, is declared and distributed to shareholders annually. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the Fund if not distributed and, therefore, will be distributed to shareholders at least annually. The Fund may also make additional distributions for tax purposes if necessary.

The timing and characterization of certain income and capital gain 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 net operating losses 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 Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

The tax character of current year distributions will be determined at the end of the current fiscal year.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

Contingencies. In the normal course of business, the Fund may enter into contracts with service providers that contain general 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 been made. However, based on experience, the Fund expects 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. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Purchases and Sales of Securities

During the six months ended June 30, 2012, purchases and sales of investment transactions (excluding short-term investments) aggregated $38,581,663 and $53,594,548, respectively.

C. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund 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 Fund.

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays a monthly management fee based on the Fund's average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

First $250 million	.550%
Next $750 million	.525%
Over $1 billion	.500%

Accordingly, for the six months ended June 30, 2012, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate of 0.55% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the six months ended June 30, 2012, the Administration Fee was $77,137, of which $11,511 is unpaid.

Service Provider Fees. DWS Investments Service Company ("DISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2012, the amounts charged to the Fund by DISC aggregated $174, of which $58 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2012, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $5,670, of which $646 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the six months ended June 30, 2012, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $9,650.

D. Ownership of the Fund

At June 30, 2012, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 54%, 23% and 15%.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $375 million revolving credit facility provided by a syndication of banks. The Fund may borrow 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 on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at June 30, 2012.

F. Acquisition of Assets

On April 29, 2011, the Fund acquired all of the net assets of DWS Mid Cap Growth VIP and DWS Turner Mid Cap Growth VIP pursuant to a plan of reorganization approved by shareholders on January 12, 2011. The acquisition was accomplished by a tax-free exchange of 2,029,578 Class A shares of DWS Mid Cap Growth VIP and 6,543,235 Class A shares of DWS Turner Mid Cap Growth VIP for 1,818,964 Class A shares and 4,184,491 Class A shares of the Fund, respectively, outstanding on April 29, 2011. DWS Mid Cap Growth VIP and DWS Turner Mid Cap Growth VIP's net assets at that date, $28,448,304 and $65,444,617, respectively, including $6,234,926 and $6,931,871 of net unrealized appreciation, respectively, were combined with those of the Fund. The aggregate net assets of the Fund immediately before the acquisition were $105,299,610. The combined net assets of the Fund immediately following the acquisition were $199,192,531.

Information About Your Fund's Expenses (Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees and other Fund expenses. Examples of transaction costs include contract charges 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (January 1, 2012 to June 30, 2012).

The tables illustrate your Fund's expenses in two ways:

- **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund'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% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund'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. 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, 2012

Actual Fund Return	Class A
Beginning Account Value 1/1/12	$1,000.00
Ending Account Value 6/30/12	$1,066.50
Expenses Paid per $1,000*	$ 3.80

Hypothetical 5% Fund Return	Class A
Beginning Account Value 1/1/12	$1,000.00
Ending Account Value 6/30/12	$1,021.18
Expenses Paid per $1,000*	$ 3.72

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 182 (the number of days in the most recent six-month period), then divided by 366.

Annualized Expense Ratio	Class A
DWS Variable Series II — DWS Small Mid Cap Growth VIP	.74%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

Proxy Voting

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 are available on our Web site — www.dws-investments.com (click on "proxy voting" at the bottom of the page) — 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) 728-3337.

Summary of Management Fee Evaluation by Independent Fee Consultant

September 26, 2011

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds (formerly the DWS Scudder Funds). My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2011, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007, 2008, 2009 and 2010.

Qualifications

For more than 35 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past ten years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds and have served in various leadership and financial oversight capacities with non-profit organizations.

Evaluation of Fees for each DWS Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 109 mutual fund portfolios in the DWS Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

- The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.
- The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

DeAM's Fees for Similar Services to Others

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Fund. These similar products included the other DWS Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

Costs and Profit Margins

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

Economies of Scale

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Fund compares with this industry observation, I reviewed:

- The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.
- Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.
- How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

Quality of Service — Performance

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

Complex-Level Considerations

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

- I reviewed DeAM's profitability analysis for all DWS Funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.
- I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.
- I considered how aggregated DWS Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.
- I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

Findings

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Funds are reasonable.

Thomas H. Mack

Thomas H. Mack
President, Thomas H. Mack & Co., Inc.

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DWS INVESTMENTS
Deutsche Bank Group

VS2SMCG-3 (R-028388-1 8/12)

JUNE 30, 2012

SEMIANNUAL REPORT

DWS VARIABLE SERIES II

DWS Diversified International Equity VIP

DWS INVESTMENTS
Deutsche Bank Group

Contents

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus or summary prospectus, if available, call (800) 728-3337 or your financial representative. We advise you to consider the Fund's objectives, risks, charges and expenses carefully before investing. The summary prospectus and prospectus contain this and other important information about the Fund. Please read the prospectus carefully before you invest.

Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. The Fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

DWS Investments is part of Deutsche Bank's Asset Management division and, within the U.S., represents the retail asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.

NOT FDIC/NCUA INSURED   NO BANK GUARANTEE   MAY LOSE VALUE   NOT A DEPOSIT
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

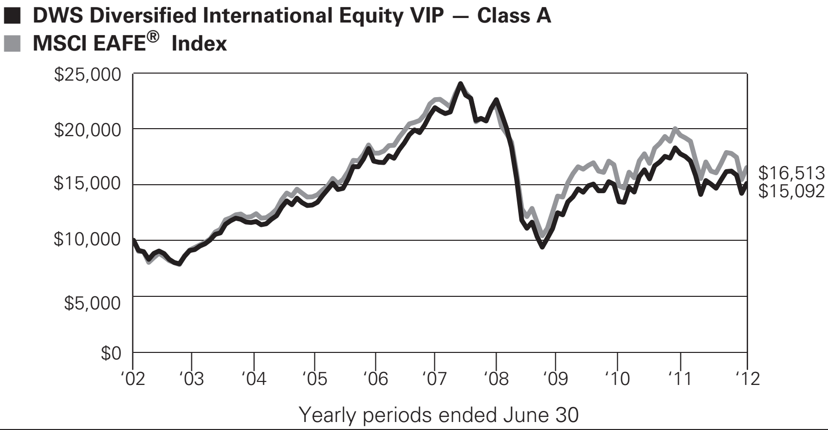
Performance Summary

June 30, 2012 (Unaudited)

Fund 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 contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns.

The gross expense ratio of the Fund, as stated in the fee table of the prospectus dated May 1, 2012 is 1.07% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Growth of an Assumed $10,000 Investment in DWS Diversified International Equity VIP



The Morgan Stanley Capital International (MSCI) Europe, Australasia and the Far East EAFE® Index is an unmanaged, free float-adjusted, market capitalization index that tracks international stock performance in the 21 developed markets of Europe, Australasia and the Far East. The index is calculated using closing local market prices and translates into U.S. dollars using the London close foreign exchange rates.

Index returns do not reflect any fees or expenses and it is not possible to invest directly into an index.

Comparative Results

DWS Diversified International Equity VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,289	$8,622	$12,277	$6,992	$15,092
	Average annual total return	2.89%	–13.78%	7.08%	–6.91%	4.20%
MSCI EAFE Index	Growth of $10,000	$10,296	$8,617	$11,898	$7,301	$16,513
	Average annual total return	2.96%	–13.83%	5.96%	–6.10%	5.14%

The growth of $10,000 is cumulative.

‡ Total returns shown for periods less than one year are not annualized.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/12**	**12/31/11**
Common Stocks	88%	89%
Exchange-Traded Funds	10%	10%
Cash Equivalents*	2%	0%
Preferred Stocks	0%	1%
	100%	100%

Sector Diversification (As a % of Common and Preferred Stocks and Rights)	**6/30/12**	**12/31/11**
Telecommunication Services	17%	14%
Health Care	12%	13%
Financials	12%	11%
Consumer Staples	12%	13%
Information Technology	10%	7%
Materials	9%	9%
Utilities	9%	11%
Industrials	8%	8%
Consumer Discretionary	7%	9%
Energy	4%	5%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/12**	**12/31/11**
Continental Europe	54%	49%
Japan	12%	13%
Emerging Markets	10%	10%
Canada	7%	11%
United Kingdom	7%	8%
Asia (excluding Japan)	6%	5%
Australia	4%	4%
	100%	100%

* In order to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the market, the Fund invests in futures contracts.

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 5.

Following the Fund'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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management Team

Robert Wang

Russell Shtern, CFA

Portfolio Managers, QS Investors, LLC, Subadvisor to the Fund

	Shares	Value ($)
Common Stocks 87.2%		
Australia 3.8%		
AGL Energy Ltd.	11,731	177,905
APA Group	12,919	66,201
Asciano Ltd.	5,759	25,902
Australia & New Zealand Banking Group Ltd.	2,339	53,098
BHP Billiton Ltd.	4,758	155,094
Brambles Ltd.	9,482	60,141
Coca-Cola Amatil Ltd.	2,294	31,507
Cochlear Ltd.	479	32,441
Commonwealth Bank of Australia	1,367	74,811
Crown Ltd.	7,919	69,173
CSL Ltd.	3,616	146,659
Echo Entertainment Group Ltd.	6,555	28,755
Fairfax Media Ltd.	36,454	20,871
Leighton Holdings Ltd.	986	16,621
National Australia Bank Ltd.	2,126	51,631
Newcrest Mining Ltd.	1,231	28,653
Origin Energy Ltd.	6,869	86,401
QR National Ltd.	11,307	39,646
Rio Tinto Ltd.	735	43,202
Santos Ltd.	6,168	67,739
Sonic Healthcare Ltd.	3,281	42,788
SP AusNet	47,515	49,607
TABCORP Holdings Ltd.	15,130	45,592
Tatts Group Ltd.	24,689	66,554
Telstra Corp., Ltd.	117,048	443,538
Toll Holdings Ltd.	4,694	19,275
Transurban Group (Units)	7,777	45,345
Wesfarmers Ltd.	3,054	94,020
Westfield Group (REIT) (Units)	2,462	23,986
Westpac Banking Corp.	2,057	44,749
Woodside Petroleum Ltd.	3,625	116,089
Woolworths Ltd.	2,335	64,223
WorleyParsons Ltd.	1,091	28,338
(Cost $1,779,338)		**2,360,555**
Austria 0.6%		
Erste Group Bank AG*	7,544	143,422
Immofinanz AG* (a)	33,264	105,888
Raiffeisen Bank International AG	1,765	57,808
Vienna Insurance Group AG Wiener Versicherung Gruppe	1,323	53,450
(Cost $350,192)		**360,568**
Belgium 1.6%		
Ageas	64,523	127,806
Anheuser-Busch InBev NV	5,193	403,718
Delhaize Group	593	21,719
Groupe Bruxelles Lambert SA	2,184	148,424
KBC Groep NV (a)	4,365	92,664
Solvay SA	1,060	104,869
Umicore SA	2,235	103,319
(Cost $796,309)		**1,002,519**
Bermuda 0.1%		
Seadrill Ltd. (a) (Cost $25,496)	2,436	**86,965**

	Shares	Value ($)
Canada 6.9%		
Alimentation Couche-Tard, Inc. "B"	1,500	65,504
Bank of Montreal (a)	800	44,208
Bank of Nova Scotia (a)	1,100	56,983
Barrick Gold Corp. (a)	2,100	79,103
BCE, Inc. (a)	3,000	123,701
Bell Aliant, Inc. (a)	1,400	35,107
Bombardier, Inc. "B" (a)	6,500	25,665
Brookfield Asset Management, Inc. "A" (a)	1,000	33,111
CAE, Inc. (a)	2,200	21,371
Canadian Imperial Bank of Commerce (a)	500	35,188
Canadian National Railway Co. (a)	1,500	126,854
Canadian Natural Resources Ltd.	1,400	37,554
Canadian Pacific Railway Ltd.	700	51,374
Canadian Tire Corp., Ltd. "A"	500	33,828
Canadian Utilities Ltd. "A"	1,800	117,484
CGI Group, Inc. "A"*	22,900	550,401
Eldorado Gold Corp.	1,800	22,171
Empire Co., Ltd. "A"	500	26,353
EnCana Corp. (a)	1,000	20,823
Finning International, Inc. (a)	900	20,933
First Quantum Minerals Ltd. (a)	800	14,144
Fortis, Inc. (a)	6,400	202,982
George Weston Ltd.	700	39,768
Gildan Activewear, Inc. (a)	800	22,041
Goldcorp, Inc.	1,800	67,767
Kinross Gold Corp.	2,300	18,773
Loblaw Companies Ltd. (a)	1,500	47,736
Magna International, Inc. "A" (a)	1,106	43,682
Manulife Financial Corp.	2,600	28,321
Metro, Inc. "A"	1,300	66,564
National Bank of Canada (a)	400	28,591
Open Text Corp.*	5,900	295,608
Potash Corp. of Saskatchewan, Inc. (a)	1,300	56,822
Research In Motion Ltd.* (a)	48,200	356,967
Rogers Communications, Inc. "B" (a)	4,800	174,018
Royal Bank of Canada (a)	1,300	66,602
Saputo, Inc. (a)	1,800	74,839
Shaw Communications, Inc. "B" (a)	2,400	45,355
Shoppers Drug Mart Corp. (a)	2,700	108,865
Silver Wheaton Corp.	1,100	29,572
SNC-Lavalin Group, Inc.	600	22,477
Sun Life Financial, Inc. (a)	1,000	21,756
Suncor Energy, Inc.	2,020	58,412
Teck Resources Ltd. "B"	1,200	37,163
Telus Corp.	800	48,042
Telus Corp. (Non-Voting Shares) (a)	1,900	111,171
Thomson Reuters Corp. (a) (b)	800	22,764
Thomson Reuters Corp. (b)	1,158	32,945
Tim Hortons, Inc.	1,000	52,716
Toronto-Dominion Bank (a)	900	70,437
TransAlta Corp. (a)	8,600	145,713
Valeant Pharmaceuticals International, Inc.*	6,700	300,549
Viterra, Inc.	3,700	58,693
Yamana Gold, Inc.	1,100	16,974
(Cost $4,489,378)		**4,316,545**

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

	Shares	Value ($)
Denmark 2.1%		
A P Moller-Maersk AS "A"	7	43,745
A P Moller-Maersk AS "B"	18	118,456
Carlsberg AS "B"	6,056	477,196
Coloplast AS "B"	211	37,923
Danske Bank AS*	19,616	273,311
DSV AS	2,622	52,026
Novo Nordisk AS "B"	1,898	274,586
Tryg AS	621	34,867
William Demant Holding AS*	291	26,152
(Cost $1,033,737)		**1,338,262**
Finland 3.5%		
Fortum Oyj	14,781	280,844
Kone Oyj "B"	1,991	120,565
Metso Corp. (a)	1,709	59,170
Nokia Oyj	463,367	954,555
Pohjola Bank PLC	3,258	38,049
Sampo Oyj "A"	10,661	277,129
Stora Enso Oyj "R"	23,027	142,121
UPM-Kymmene Oyj	20,179	228,703
Wartsila Oyj	2,307	75,836
(Cost $2,533,714)		**2,176,972**
France 7.1%		
Air Liquide SA	1,652	189,006
Alcatel-Lucent* (a)	30,877	51,300
Arkema	421	27,585
AtoS	697	41,738
AXA SA	6,001	80,319
BNP Paribas SA	2,926	112,955
Bouygues SA	734	19,780
Cap Gemini	2,014	74,244
Carrefour SA (a)	3,071	56,746
Casino Guichard-Perrachon SA	501	43,991
Cie de St-Gobain (a)	755	27,938
DANONE SA	2,453	152,288
Dassault Systemes SA (a)	830	77,972
Electricite de France	2,181	48,557
Essilor International SA	2,945	273,573
France Telecom SA (a)	28,037	368,957
GDF Suez	12,916	308,162
Iliad SA (a)	426	61,637
L'Oreal SA	996	116,674
Lafarge SA (a)	843	37,729
LVMH Moet Hennessy Louis Vuitton SA	420	64,016
Pernod Ricard SA	1,025	109,651
Sanofi	15,106	1,145,504
Schneider Electric SA	894	49,812
Societe Generale*	2,229	52,553
Suez Environnement Co.	1,869	20,119
Technip SA	427	44,560
Total SA	6,134	276,822
Unibail-Rodamco SE (REIT)	265	48,891
Veolia Environnement	4,218	53,375
Vinci SA	944	44,182
Vivendi (a)	20,385	378,970
(Cost $4,237,786)		**4,459,606**
Germany 5.2%		
Adidas AG	551	39,519
Allianz SE (Registered)	1,916	192,663
BASF SE	1,618	112,433
Bayer AG	3,762	271,273
Bayerische Motoren Werke (BMW) AG	704	51,010
Beiersdorf AG	1,386	89,928
Commerzbank AG*	17,612	29,917
Continental AG	289	24,091
Daimler AG (Registered)	1,589	71,464
Deutsche Boerse AG	688	37,133
Deutsche Post AG (Registered)	3,555	62,963
Deutsche Telekom AG (Registered)	72,396	794,202
E.ON AG	12,448	268,135
Fresenius Medical Care AG & Co. KGaA	1,256	88,902
Fresenius SE & Co. KGaA	632	65,535
GEA Group AG	1,223	32,474
Henkel AG & Co. KGaA	1,794	99,417
Infineon Technologies AG	4,778	32,397
K+S AG (Registered)	447	20,395
Kabel Deutschland Holding AG*	301	18,732
Linde AG	332	51,712
Merck KGaA	430	42,911
Metro AG	2,014	58,750
Muenchener Rueckversicherungs-Gesellschaft AG (Registered)	761	107,369
RWE AG	3,136	128,196
SAP AG	3,204	189,207
Siemens AG (Registered)	2,778	233,512
Suedzucker AG	1,189	42,059
Volkswagen AG	110	16,596
(Cost $2,835,950)		**3,272,895**
Hong Kong 2.4%		
AIA Group Ltd.	23,000	79,303
Cathay Pacific Airways Ltd.	15,000	24,302
Cheung Kong (Holdings) Ltd.	5,000	61,786
Cheung Kong Infrastructure Holdings Ltd. (a)	7,000	42,033
CLP Holdings Ltd.	23,000	195,477
Galaxy Entertainment Group Ltd.* (a)	12,000	30,110
Hang Lung Properties Ltd.	12,000	40,848
Hang Seng Bank Ltd. (a)	2,200	30,036
Hong Kong & China Gas Co., Ltd.	45,813	97,320
Hong Kong Exchanges & Clearing Ltd. (a)	3,500	50,162
Hutchison Whampoa Ltd.	31,000	268,116
Li & Fung Ltd. (a)	36,000	69,762
Link (REIT) (a)	11,000	44,902
MTR Corp., Ltd.	17,500	59,889
Noble Group Ltd.	51,363	45,859
NWS Holdings Ltd. (a)	30,000	43,605
Orient Overseas International Ltd.	5,000	24,534
Power Assets Holdings Ltd. (a)	14,000	105,027
Shangri-La Asia Ltd. (a)	12,000	22,890
SJM Holdings Ltd.	12,000	22,327
Sun Hung Kai Properties Ltd. (a)	5,000	59,299
Swire Pacific Ltd. "A"	2,000	23,303
Wharf Holdings Ltd.	6,000	33,397
Yue Yuen Industrial (Holdings) Ltd. (a)	5,000	15,609
(Cost $1,209,738)		**1,489,896**

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

	Shares	Value ($)
Ireland 2.7%		
CRH PLC (b)	20,956	402,877
CRH PLC (b)	55,133	1,069,886
Elan Corp. PLC*	14,234	207,495
Experian PLC	1,159	16,372
(Cost $1,602,046)		**1,696,630**
Italy 4.2%		
Assicurazioni Generali SpA	8,011	108,714
Atlantia SpA	7,403	94,552
Autogrill SpA	2,933	26,636
Enel Green Power SpA	16,188	25,665
Enel SpA (a)	78,094	252,015
Eni SpA	11,163	238,234
Fiat Industrial SpA	20,463	201,651
Fiat SpA* (a)	22,794	115,339
Finmeccanica SpA*	7,959	32,186
Intesa Sanpaolo (a)	68,028	97,301
Luxottica Group SpA	2,649	92,883
Mediaset SpA	19,700	34,466
Pirelli & C. SpA (a)	5,969	62,965
Prysmian SpA	5,291	79,139
Saipem SpA	1,672	74,463
Snam SpA	16,191	72,180
Telecom Italia SpA	554,210	546,139
Telecom Italia SpA (RSP)	357,071	287,228
Terna — Rete Elettrica Nationale SpA (a)	14,939	53,827
UBI Banca — Unione di Banche Italiane ScpA (a)	3,919	12,863
UniCredit SpA*	26,606	100,817
(Cost $2,959,504)		**2,609,263**
Japan 11.4%		
AEON Co., Ltd. (a)	5,200	64,818
Ajinomoto Co., Inc. (a)	6,000	83,412
Alfresa Holdings Corp.	500	26,502
Asahi Group Holdings Ltd. (a)	3,400	73,024
Asahi Kasei Corp.	5,000	27,125
Astellas Pharma, Inc.	3,800	165,984
Bridgestone Corp.	1,200	27,525
Canon, Inc. (a)	1,500	60,064
Central Japan Railway Co.	3	23,709
Chubu Electric Power Co., Inc.	9,900	160,735
Chugai Pharmaceutical Co., Ltd. (a)	2,300	43,544
Chugoku Electric Power Co., Inc.	4,300	70,798
Dai-ichi Life Insurance Co., Ltd.	35	40,544
Daiichi Sankyo Co., Ltd. (a)	5,800	97,655
Dainippon Sumitomo Pharma Co., Ltd.	1,800	18,360
Daito Trust Construction Co., Ltd.	400	37,944
Daiwa House Industry Co., Ltd.	2,000	28,393
Daiwa Securities Group, Inc. (a)	10,000	37,650
Denso Corp.	800	27,239
Eisai Co., Ltd. (a)	2,100	92,198
Electric Power Development Co., Ltd.	1,600	41,961
FamilyMart Co., Ltd.	500	22,894
FANUC Corp. (a)	200	32,859
FUJIFILM Holdings Corp.	1,200	22,686
Hisamitsu Pharmaceutical Co., Inc. (a)	700	34,477
Hitachi Ltd.	7,000	43,051

	Shares	Value ($)
Hokkaido Electric Power Co., Inc.	2,100	27,142
Hokuriku Electric Power Co.	2,800	43,577
Honda Motor Co., Ltd.	1,600	55,735
HOYA Corp.	1,400	30,847
Idemitsu Kosan Co., Ltd.	300	26,827
INPEX Corp. (a)	21	117,733
Japan Real Estate Investment Corp. (REIT)	5	45,968
Japan Tobacco, Inc.	7,400	219,288
JFE Holdings, Inc.	1,400	23,409
JX Holdings, Inc.	22,920	117,740
Kansai Electric Power Co., Inc.	11,900	142,558
Kao Corp.	4,500	124,110
KDDI Corp.	34	219,312
Keyence Corp.	110	27,205
Kikkoman Corp.	2,000	24,734
Kirin Holdings Co., Ltd.	8,000	94,286
Komatsu Ltd.	900	21,571
Kyocera Corp.	400	34,539
Kyowa Hakko Kirin Co., Ltd.	3,000	30,823
Kyushu Electric Power Co., Inc.	5,600	66,433
Lawson, Inc. (a)	500	34,981
MEIJI Holdings Co., Ltd.	500	22,953
Mitsubishi Chemical Holdings Corp.	6,500	28,627
Mitsubishi Corp.	1,900	38,368
Mitsubishi Estate Co., Ltd.	4,000	71,756
Mitsubishi Tanabe Pharma Corp.	2,200	31,612
Mitsubishi UFJ Financial Group, Inc.	43,700	209,139
Mitsui & Co., Ltd.	2,500	37,092
Mitsui Fudosan Co., Ltd.	3,000	58,196
Mizuho Financial Group, Inc.	77,200	130,687
MS&AD Insurance Group Holdings, Inc.	2,400	42,008
Nintendo Co., Ltd.	200	23,337
Nippon Building Fund, Inc. (REIT)	4	38,732
Nippon Meat Packers, Inc.	2,000	26,486
Nippon Steel Corp.	16,000	36,256
Nippon Telegraph & Telephone Corp.	5,409	251,314
Nishi-Nippon City Bank Ltd.	8,000	19,495
Nissan Motor Co., Ltd. (a)	3,400	32,200
Nisshin Seifun Group, Inc.	3,000	35,117
Nissin Foods Holdings Co., Ltd.	700	26,670
NKSJ Holdings, Inc.	1,750	37,299
Nomura Holdings, Inc.	12,000	44,815
Nomura Real Estate Office Fund, Inc. (REIT)	5	28,231
NTT DoCoMo, Inc.	187	311,201
Olympus Corp.*	1,900	30,816
Ono Pharmaceutical Co., Ltd.	700	44,029
Oriental Land Co., Ltd.	200	22,873
ORIX Corp.	580	53,985
Osaka Gas Co., Ltd.	30,000	125,747
Otsuka Holdings KK	2,600	79,665
Panasonic Corp. (a)	3,100	25,214
Resona Holdings, Inc.	6,900	28,479
Santen Pharmaceutical Co., Ltd. (a)	700	28,709
Seven & I Holdings Co., Ltd.	6,200	186,814
Shikoku Electric Power Co., Inc. (a)	2,600	55,209
Shin-Etsu Chemical Co., Ltd.	700	38,512
Shionogi & Co., Ltd.	3,400	46,235
Shiseido Co., Ltd. (a)	3,500	55,179
SOFTBANK Corp. (a)	11,000	408,970

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

	Shares	Value ($)
Sony Corp.	1,300	18,500
Sumitomo Chemical Co., Ltd.	6,000	18,452
Sumitomo Mitsui Financial Group, Inc.	4,800	158,347
Sumitomo Mitsui Trust Holdings, Inc.	13,410	40,062
Sumitomo Realty & Development Co., Ltd.	2,000	49,210
Suzuken Co., Ltd.	900	30,355
Sysmex Corp. (a)	400	15,808
T&D Holdings, Inc.	3,600	38,395
Taisho Pharmaceutical Holdings Co., Ltd.	300	25,361
Takeda Pharmaceutical Co., Ltd.	6,300	285,890
Terumo Corp. (a)	1,400	57,517
Toho Gas Co., Ltd.	7,000	43,475
Tohoku Electric Power Co., Inc.*	6,200	62,291
Tokio Marine Holdings, Inc.	2,200	55,317
Tokyo Electric Power Co., Inc.* (a)	24,100	46,581
Tokyo Gas Co., Ltd.	35,000	178,747
TonenGeneral Sekiyu KK	4,000	35,504
Toray Industries, Inc.	4,000	27,281
Toshiba Corp.	8,000	30,363
Toyo Suisan Kaisha Ltd.	1,000	26,695
Toyota Motor Corp.	2,200	88,672
Unicharm Corp. (a)	900	51,270
Yakult Honsha Co., Ltd. (a)	700	27,405
(Cost $6,569,564)		**7,157,494**
Luxembourg 0.4%		
ArcelorMittal	4,154	64,171
Millicom International Cellular SA (SDR) (a)	1,194	112,652
Tenaris SA (a)	2,802	48,990
(Cost $178,537)		**225,813**
Macau 0.1%		
Sands China Ltd. (a)	16,000	51,254
Wynn Macau Ltd. (a)	9,200	21,681
(Cost $36,554)		**72,935**
Netherlands 6.6%		
AEGON NV	16,984	79,113
Akzo Nobel NV	2,534	119,199
ASML Holding NV	26,790	1,365,146
Corio NV (REIT)	729	32,110
Gemalto NV	952	68,464
Heineken Holding NV	913	40,864
Heineken NV	1,492	77,934
ING Groep NV (CVA)*	36,097	243,540
Koninklijke (Royal) KPN NV (a)	76,082	728,517
Koninklijke Ahold NV	6,503	80,581
Koninklijke DSM NV (a)	1,774	87,525
Koninklijke Philips Electronics NV	6,373	126,017
Koninklijke Vopak NV	374	23,983
Randstad Holding NV	918	27,110
Reed Elsevier NV	27,842	318,494
Royal Dutch Shell PLC "A"	1,952	65,756
Royal Dutch Shell PLC "B"	2,331	81,352
TNT Express NV	2,201	25,747
Unilever NV (CVA)	9,392	314,354
Wolters Kluwer NV	13,342	212,399
(Cost $3,521,259)		**4,118,205**

	Shares	Value ($)
Norway 2.0%		
DnB ASA	26,828	266,891
Gjensidige Forsikring ASA	5,502	64,013
Norsk Hydro ASA (a)	22,115	99,810
Statoil ASA	7,119	170,230
Telenor ASA	27,914	465,537
Yara International ASA	4,676	204,778
(Cost $804,779)		**1,271,259**
Singapore 3.3%		
CapitaLand Ltd. (a)	20,000	43,175
ComfortDelGro Corp., Ltd.	29,000	35,536
DBS Group Holdings Ltd.	10,000	110,380
Fraser & Neave Ltd.	13,000	72,448
Genting Singapore PLC (a)	175,000	196,393
Global Logistic Properties Ltd.	17,000	28,321
Golden Agri-Resources Ltd.	173,000	92,483
Hutchison Port Holdings Trust (Units)	63,000	45,037
Jardine Cycle & Carriage Ltd.	3,000	110,686
Keppel Corp., Ltd.	15,400	126,189
Olam International Ltd. (a)	43,000	62,574
Oversea-Chinese Banking Corp., Ltd.	14,000	97,802
SembCorp Industries Ltd.	16,000	65,413
SembCorp Marine Ltd.	8,000	30,546
Singapore Airlines Ltd.	6,000	49,324
Singapore Exchange Ltd.	7,000	35,140
Singapore Press Holdings Ltd.	37,000	114,250
Singapore Technologies Engineering Ltd.	15,000	37,016
Singapore Telecommunications Ltd.	157,000	410,071
StarHub Ltd.	14,000	37,960
United Overseas Bank Ltd.	7,000	104,024
Wilmar International Ltd. (a)	50,000	143,742
(Cost $1,513,521)		**2,048,510**
Spain 5.0%		
Abertis Infraestructuras SA	8,822	119,449
Acciona SA	263	15,705
ACS, Actividades de Construccion y Servicios SA (a)	3,929	84,228
Amadeus IT Holding SA "A"	19,394	410,709
Banco Bilbao Vizcaya Argentaria SA (a)	15,923	114,763
Banco Santander SA	30,537	203,950
Enagas SA	2,258	41,204
Ferrovial SA	10,842	122,245
Gas Natural SDG SA	4,736	60,838
Iberdrola SA (a)	50,661	239,874
Industria de Diseno Textil SA	4,242	438,748
Red Electrica Corporacion SA (a)	1,484	64,717
Repsol YPF SA (a)	24,012	386,069
Telefonica SA (a)	61,238	807,915
Zardoya Otis SA (a)	3,050	33,940
(Cost $3,292,036)		**3,144,354**
Sweden 3.5%		
Assa Abloy AB "B"	1,207	33,751
Atlas Copco AB "A"	2,084	44,996
Boliden AB (a)	5,037	70,458

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

	Shares	Value ($)
Electrolux AB "B"	1,087	21,703
Hennes & Mauritz AB "B"	5,804	208,670
Hexagon AB "B"	2,788	48,078
Holmen AB "B"	1,214	33,050
Husqvarna AB "B" (a)	4,852	22,969
Modern Times Group "B"	537	24,922
Nordea Bank AB	10,270	88,912
Sandvik AB	3,095	39,846
Skandinaviska Enskilda Banken AB "A"	4,035	26,302
Skanska AB "B"	1,724	26,441
SKF AB "B"	1,279	25,304
SSAB AB "A" (a)	2,870	23,883
Svenska Cellulosa AB "B"	8,288	124,472
Svenska Handelsbanken AB "A"	1,999	65,896
Swedbank AB "A"	3,758	59,428
Swedish Match AB	10,942	441,596
Tele2 AB "B" (a)	5,797	89,845
Telefonaktiebolaget LM Ericsson "B"	42,182	384,907
TeliaSonera AB	38,625	247,099
Volvo AB "B"	2,677	30,667
(Cost $1,868,386)		**2,183,195**
Switzerland 7.3%		
ABB Ltd. (Registered)* (a)	7,290	118,974
Actelion Ltd. (Registered)*	481	19,756
Adecco SA (Registered)*	824	36,669
Aryzta AG*	598	29,718
Compagnie Financiere Richemont SA "A"	2,708	148,616
Credit Suisse Group AG (Registered)*	2,979	54,423
Geberit AG (Registered)* (a)	246	48,524
Givaudan SA (Registered)*	61	59,913
Holcim Ltd. (Registered)*	1,280	70,914
Lindt & Spruengli AG (Registered)*	1	36,738
Lonza Group AG (Registered)*	466	19,405
Nestle SA (Registered)	20,152	1,202,095
Novartis AG (Registered)	11,006	613,914
Roche Holding AG (Genusschein)	3,449	595,392
Sika AG (a)	19	36,593
Sonova Holding AG (Registered)*	289	27,887
STMicroelectronics NV	8,506	46,779
Swatch Group AG (Bearer)	186	73,593
Swiss Re AG.*	723	45,421
Swisscom AG (Registered) (a)	2,114	849,828
Syngenta AG (Registered)	435	148,502
UBS AG (Registered)*	8,918	104,291
Wolseley PLC	918	34,299
Xstrata PLC	2,858	36,074
Zurich Insurance Group AG*	398	89,797
(Cost $3,015,915)		**4,548,115**
United Kingdom 7.2%		
Anglo American PLC	1,947	63,881
ARM Holdings PLC	37,523	298,811
AstraZeneca PLC	8,219	367,381
BAE Systems PLC	8,559	38,733
Barclays PLC	8,467	21,674
BG Group PLC	3,267	66,868
BHP Billiton PLC	3,282	93,722
BP PLC	14,756	98,868
British American Tobacco PLC	2,622	133,455
British Sky Broadcasting Group PLC	3,065	33,452
BT Group PLC	34,124	113,118
Burberry Group PLC	877	18,293
Capita PLC	1,652	16,987
Centrica PLC	23,148	115,397
Compass Group PLC	1,662	17,433
Diageo PLC	3,511	90,321
GlaxoSmithKline PLC	32,944	747,033
HSBC Holdings PLC	12,924	113,957
Imperial Tobacco Group PLC	1,507	57,985
Inmarsat PLC	3,673	28,254
International Consolidated Airlines Group SA*	24,813	62,357
Kingfisher PLC	7,038	31,822
Lloyds Banking Group PLC*	35,330	17,378
Marks & Spencer Group PLC	6,157	31,476
National Grid PLC	14,501	153,488
Pearson PLC (a)	2,051	40,735
Reckitt Benckiser Group PLC	814	42,932
Reed Elsevier PLC	4,792	38,444
Rio Tinto PLC	1,800	85,967
Rolls-Royce Holdings PLC*	1,946	26,253
Rolls-Royce Holdings PLC "C" (Entitlment Shares)*	206,276	323
SABMiller PLC	1,281	51,454
Severn Trent PLC	1,531	39,653
Shire PLC	3,629	104,300
Smith & Nephew PLC	6,163	61,694
Smiths Group PLC	1,710	27,218
SSE PLC	4,799	104,627
Standard Chartered PLC	1,687	36,778
Subsea 7 SA (a)	1,418	28,150
Tesco PLC	10,251	49,829
The Sage Group PLC	35,008	152,114
Unilever PLC	1,529	51,388
United Utilities Group PLC	5,004	52,945
Veripos, Inc.*	141	383
Vodafone Group PLC	218,220	613,119
William Morrison Supermarkets PLC	5,677	23,693
WPP PLC	3,863	46,952
(Cost $3,348,856)		**4,511,095**
United States 0.2%		
SXC Health Solutions Corp.* (Cost $130,856)	1,400	**139,037**
Total Common Stocks (Cost $48,133,451)		**54,590,688**

Preferred Stocks 0.4%

	Shares	Value ($)
Germany 0.4%		
Bayerische Motoren Werke (BMW) AG	416	20,523
Henkel AG & Co. KGaA	2,339	155,337
Porsche Automobil Holding SE (a)	395	19,669
Volkswagen AG	277	43,918
Total Preferred Stocks (Cost $134,955)		**239,447**

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

	Shares	Value ($)
Rights 0.0%		
Australia		
Echo Entertainment Group Ltd., Expiration Date 7/9/2012* (Cost $0)	1,311	**1,315**
Exchange-Traded Funds 9.9%		
Emerging Markets		
iShares MSCI Emerging Markets Index Fund (a)	77,400	3,033,306
Vanguard MSCI Emerging Markets Fund	79,900	3,192,005
Total Exchange-Traded Funds (Cost $5,123,459)		**6,225,311**

	Shares	Value ($)
Securities Lending Collateral 15.7%		
Daily Assets Fund Institutional, 0.24% (c) (d) (Cost $9,798,815)	9,798,815	**9,798,815**
Cash Equivalents 1.7%		
Central Cash Management Fund, 0.14% (c) (Cost $1,049,423)	1,049,423	**1,049,423**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $64,240,103)†	114.9	**71,904,999**
Other Assets and Liabilities, Net	(14.9)	**(9,308,422)**
Net Assets	100.0	**62,596,577**

* Non-income producing security.

† The cost for federal income tax purposes was $64,568,142. At June 30, 2012, net unrealized appreciation for all securities based on tax cost was $7,336,857. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $12,231,587 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $4,894,730.

(a) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2012 amounted to $9,699,610, which is 15.5% of net assets.

(b) Securities with the same description are the same corporate entity but trade on different stock exchanges.

(c) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(d) Represents collateral held in connection with securities lending. Income earned by the Fund is net of borrower rebates.

CVA: Certificaten Van Aandelen

MSCI: Morgan Stanley Capital International

REIT: Real Estate Investment Trust

RSP: Risparmio (Convertible Savings Shares)

SDR: Swedish Depositary Receipt

At June 30, 2012, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
ASX SPI 200 Index	AUD	9/20/2012	1	103,808	(592)
Euro Stoxx 50 Index	EUR	9/20/2012	31	884,647	46,187
FTSE 100 Index	GBP	9/20/2012	1	86,499	1,564
Nikkei 225 Index	USD	9/20/2012	4	182,500	12,334
Total net unrealized appreciation					**59,493**

Currency Abbreviations

AUD	Australian Dollar	GBP	British Pound
EUR	Euro	USD	United States Dollar

For information on the Fund's policy and additional disclosures regarding futures contracts, please refer to Note B in the accompanying Notes to Financial Statements.

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

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2012 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Common, Preferred Stocks and Rights				
Australia	$ 1,315	$ 2,360,555	$ —	$ 2,361,870
Austria	—	360,568	—	360,568
Belgium	—	1,002,519	—	1,002,519
Bermuda	—	86,965	—	86,965
Canada	4,283,600	32,945	—	4,316,545
Denmark	—	1,338,262	—	1,338,262
Finland	—	2,176,972	—	2,176,972
France	—	4,459,606	—	4,459,606
Germany	—	3,512,342	—	3,512,342
Hong Kong	—	1,489,896	—	1,489,896
Ireland	—	1,696,630	—	1,696,630
Italy	—	2,609,263	—	2,609,263
Japan	—	7,157,494	—	7,157,494
Luxembourg	—	225,813	—	225,813
Macau	—	72,935	—	72,935
Netherlands	—	4,118,205	—	4,118,205
Norway	—	1,271,259	—	1,271,259
Singapore	—	2,048,510	—	2,048,510
Spain	—	3,144,354	—	3,144,354
Sweden	—	2,183,195	—	2,183,195
Switzerland	—	4,548,115	—	4,548,115
United Kingdom	—	4,510,712	383	4,511,095
United States	139,037	—	—	139,037
Exchange-Traded Funds	6,225,311	—	—	6,225,311
Short-Term Investments (e)	10,848,238	—	—	10,848,238
Derivatives (f)	60,085	—	—	60,085
Total	**$ 21,557,586**	**$ 50,407,115**	**$ 383**	**$ 71,965,084**

Liabilities				
Derivatives (f)	$ (592)	$ —	$ —	$ (592)
Total	**$ (592)**	**$ —**	**$ —**	**$ (592)**

There have been no transfers between Level 1 and Level 2 fair value measurements during the period ended June 30, 2012.

(e) See Investment Portfolio for additional detailed categorizations.

(f) Derivatives include unrealized appreciation (depreciation) on open futures contracts.

Statement of Assets and Liabilities

as of June 30, 2012 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $53,391,865) — including $9,699,610 of securities loaned	$ 61,056,761
Investment in Daily Assets Fund Institutional (cost $9,798,815)*	9,798,815
Investment in Central Cash Management Fund (cost $1,049,423)	1,049,423
Total investments in securities, at value (cost $64,240,103)	71,904,999
Foreign currency, at value (cost $225,743)	226,358
Deposits with broker for futures contracts	139,519
Receivable for investments sold	45,073
Receivable for Fund shares sold	16,364
Dividends receivable	100,956
Interest receivable	8,034
Receivable for variation margin on futures contracts	59,493
Foreign taxes recoverable	51,642
Total assets	72,552,438

Liabilities	
Payable upon return of securities loaned	9,798,815
Payable for investments purchased	18,872
Payable for Fund shares redeemed	27,096
Accrued management fee	32,088
Accrued Trustees' fees	99
Other accrued expenses and payables	78,891
Total liabilities	9,955,861
Net assets, at value	**$ 62,596,577**

Net Assets Consist of	
Undistributed net investment income	1,121,503
Net unrealized appreciation (depreciation) on:	
Investments	7,664,896
Futures	59,493
Foreign currency	93
Accumulated net realized gain (loss)	(65,128,091)
Paid-in capital	118,878,683
Net assets, at value	**$ 62,596,577**
Class A	
Net Asset Value, offering and redemption price per share ($62,596,577 ÷ 8,968,539 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 6.98**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2012 (Unaudited)

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $182,362)	$ 1,496,240
Interest	392
Income distributions — Central Cash Management Fund	442
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	57,458
Total income	1,554,532
Expenses:	
Management fee	213,147
Administration fee	32,792
Services to shareholders	691
Custodian fee	33,214
Legal fees	3,934
Audit and tax fees	28,419
Reports to shareholders	15,690
Trustees' fees and expenses	2,672
Other	16,102
Total expenses	346,661
Net investment income (loss)	**1,207,871**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments (including foreign taxes of $153)	(202,408)
Futures	99,828
Foreign currency	(12,663)
	(115,243)
Change in net unrealized appreciation (depreciation) on:	
Investments	870,821
Futures	41,230
Foreign currency	979
	913,030
Net gain (loss)	**797,787**
Net increase (decrease) in net assets resulting from operations	**$ 2,005,658**

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, 2012 (Unaudited)	Year Ended December 31, 2011
Operations:		
Net investment income (loss)	$ 1,207,871	$ 1,861,273
Net realized gain (loss)	(115,243)	4,665,824
Change in net unrealized appreciation (depreciation)	913,030	(15,377,629)
Net increase (decrease) in net assets resulting from operations	2,005,658	(8,850,532)
Distributions to shareholders from:		
Net investment income:		
Class A	(1,885,705)	(1,512,225)
Total distributions	(1,885,705)	(1,512,225)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,437,868	5,120,530
Reinvestment of distributions	1,885,705	1,512,225
Payments for shares redeemed	(5,652,721)	(14,636,659)
Net increase (decrease) in net assets from Class A share transactions	(2,329,148)	(8,003,904)
Increase (decrease) in net assets	(2,209,195)	(18,366,661)
Net assets at beginning of period	64,805,772	83,172,433
Net assets at end of period (including undistributed net investment income of $1,121,503 and $1,799,337, respectively)	**$ 62,596,577**	**$ 64,805,772**

Other Information		
Class A		
Shares outstanding at beginning of period	9,288,789	10,297,508
Shares sold	198,885	689,406
Shares issued to shareholders in reinvestment of distributions	258,316	175,432
Shares redeemed	(777,451)	(1,873,557)
Net increase (decrease) in Class A shares	(320,250)	(1,008,719)
Shares outstanding at end of period	**8,968,539**	**9,288,789**

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

Financial Highlights

Class A	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$ 6.98**	**$ 8.08**	**$ 7.45**	**$ 6.22**	**$16.76**	**$16.31**
Income (loss) from investment operations:						
Net investment income[a]	.13	.19	.14	.12	.33[c]	.25
Net realized and unrealized gain (loss)	.08	(1.14)	.66	1.51	(6.67)	2.24
Total from investment operations	.21	(.95)	.80	1.63	(6.34)	2.49
Less distributions from:						
Net investment income	(.21)	(.15)	(.17)	(.40)	(.13)	(.46)
Net realized gains	—	—	—	—	(4.07)	(1.58)
Total distributions	(.21)	(.15)	(.17)	(.40)	(4.20)	(2.04)
Net asset value, end of period	**$ 6.98**	**$ 6.98**	**$ 8.08**	**$ 7.45**	**$ 6.22**	**$16.76**
Total Return (%)	2.89**	(12.07)	10.93	29.36	(48.81)[b,d]	16.71
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	63	65	83	86	91	236
Ratio of expenses before expense reductions (%)	1.06*	1.03	.99	.94	1.02	.93
Ratio of expenses after expense reductions (%)	1.06*	1.03	.99	.94	1.01	.93
Ratio of net investment income (%)	3.68*	2.44	1.90	1.89	3.04[c]	1.53
Portfolio turnover rate (%)	15**	26	14	139	132	117

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reimbursed.

c Net investment income per share and ratio of net investment income include non-recurring dividend income amounting to $0.16 per share and 1.49% of average daily net assets, respectively.

d Includes a reimbursement from the Advisor to reimburse the effect of losses incurred as the result of certain operation errors during the period. Excluding this reimbursement, total return would have been 0.14% lower.

* Annualized

** Not annualized

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

DWS Diversified International Equity VIP (the "Fund") is a diversified series of DWS Variable Series II (the "Trust"), which is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company organized as a Massachusetts business trust.

The Fund'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 Fund in the preparation of its financial statements.

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.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Equity securities and exchange-traded funds ("ETFs") are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. Securities or ETFs 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. For certain 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, a fair valuation model may be used. This fair valuation model takes into account comparisons to the valuation of American Depository Receipts (ADRs), exchange-traded funds, futures contracts and certain indices and these securities are categorized as Level 2.

Futures contracts are generally valued at the settlement prices established each day on the exchange on which they are traded and are categorized as Level 1.

Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

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 Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the issuer of securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan.

There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. 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 acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. 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 gain/appreciation and loss/depreciation on investments.

Taxes. The Fund's 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 income to its shareholders.

Additionally, based on the Fund's understanding of the tax rules and rates related to income, gains and transactions for the foreign jurisdictions in which it invests, the Fund will provide for foreign taxes, and where appropriate, deferred foreign taxes.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $64,396,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($25,232,000) and December 31, 2017 ($39,164,000), the respective expiration dates, whichever occurs first.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. Net investment income of the Fund, if any, is declared and distributed to shareholders annually. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the Fund if not distributed and, therefore, will be distributed to shareholders at least annually. The Fund may also make additional distributions for tax purposes if necessary.

The timing and characterization of certain income and capital gain 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 foreign denominated investments, investments in futures contracts, income received from passive foreign investment companies and 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 Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

The tax character of current year distributions will be determined at the end of the current fiscal year.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

Contingencies. In the normal course of business, the Fund may enter into contracts with service providers that contain general 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 been made. However, based on experience, the Fund expects 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 Fund is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Derivative Instruments

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). For the six months ended June 30, 2012, the Fund used futures contracts as a means of gaining exposure to a particular asset class or to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the market.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange-traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts disclosed in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of June 30, 2012 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $750,000 to $1,265,000.

The following table summarizes the value of the Fund's derivative instruments held as of June 30, 2012 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivative	**Futures Contracts**
Equity Contracts (a)	$ 60,085

The above derivative is located in the following Statement of Assets and Liabilities account:

(a) Includes cumulative appreciation of futures contracts as disclosed in the Investment Portfolio. Unsettled variation margin is disclosed separately within the Statement of Assets and Liabilities.

Liablity Derivative	**Futures Contracts**
Equity Contracts (a)	$ (592)

The above derivative is located in the following Statement of Assets and Liabilities account:

(a) Includes cumulative depreciation of futures contracts as disclosed in the Investment Portfolio. Unsettled variation margin is disclosed separately within the Statement of Assets and Liabilities.

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2012 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Futures Contracts**
Equity Contracts (a)	$ 99,828

The above derivative is located in the following Statement of Operations account:

(a) Net realized gain (loss) from futures

Change in Net Unrealized Appreciation (Depreciation)	**Futures Contracts**
Equity Contracts (a)	$ 41,230

The above derivative is located in the following Statement of Operations account:

(a) Change in net unrealized appreciation (depreciation) on futures

C. Purchases and Sales of Securities

During the six months ended June 30, 2012, purchases and sales of investment transactions (excluding short-term investments) aggregated $9,537,020 and $13,206,700, respectively.

D. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund 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 Fund or delegates such responsibility to the Fund's subadvisor.

QS Investors, LLC ("QS Investors") serves as subadvisor with respect to the investment and reinvestment of assets in the Fund, and is paid by the Advisor for its services.

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays a monthly management fee based on the Fund's average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

First $1.5 billion	.650%
Next $1.75 billion	.635%
Next $1.75 billion	.620%
Over $5 billion	.605%

Accordingly, for the six months ended June 30, 2012, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate of 0.65% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the six months ended June 30, 2012, the Administration Fee was $32,792, of which $4,937 is unpaid.

Service Provider Fees. DWS Investments Service Company ("DISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2012, the amounts charged to the Fund by DISC aggregated $56, of which $19 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2012, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $6,860, of which $1,123 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

E. Investing in Emerging Markets

Investing in emerging markets may involve special risks and considerations not typically associated with investing in developed markets. These risks include revaluation of currencies, high rates of inflation or deflation, 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 or delayed settlements, and may have prices that are more volatile or less easily assessed than those of comparable securities of issuers in developed markets.

F. Ownership of the Fund

At June 30, 2012, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 45%, 29% and 25%.

G. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $375 million revolving credit facility provided by a syndication of banks. The Fund may borrow 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 on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at June 30, 2012.

Information About Your Fund's Expenses (Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees and other Fund expenses. Examples of transaction costs include contract charges 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (January 1, 2012 to June 30, 2012).

The tables illustrate your Fund's expenses in two ways:

- **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund'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% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund'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. 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, 2012

Actual Fund Return	Class A
Beginning Account Value 1/1/12	$1,000.00
Ending Account Value 6/30/12	$1,028.90
Expenses Paid per $1,000*	$ 5.35

Hypothetical 5% Fund Return	Class A
Beginning Account Value 1/1/12	$1,000.00
Ending Account Value 6/30/12	$1,019.59
Expenses Paid per $1,000*	$ 5.32

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 182 (the number of days in the most recent six-month period), then divided by 366.

Annualized Expense Ratio	Class A
DWS Variable Series II — DWS Diversified International Equity VIP	1.06%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

Proxy Voting

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 are available on our Web site — www.dws-investments.com (click on "proxy voting" at the bottom of the page) — 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) 728-3337.

Summary of Management Fee Evaluation by Independent Fee Consultant

September 26, 2011

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds (formerly the DWS Scudder Funds). My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2011, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007, 2008, 2009 and 2010.

Qualifications

For more than 35 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past ten years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds and have served in various leadership and financial oversight capacities with non-profit organizations.

Evaluation of Fees for each DWS Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 109 mutual fund portfolios in the DWS Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

- The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.
- The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

DeAM's Fees for Similar Services to Others

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Fund. These similar products included the other DWS Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

Costs and Profit Margins

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

Economies of Scale

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Fund compares with this industry observation, I reviewed:

- The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.
- Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.
- How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

Quality of Service — Performance

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

Complex-Level Considerations

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

- I reviewed DeAM's profitability analysis for all DWS Funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.
- I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.
- I considered how aggregated DWS Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.
- I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

Findings

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Funds are reasonable.

Thomas H. Mack

Thomas H. Mack
President, Thomas H. Mack & Co., Inc.

DWS Investments Distributors, Inc.
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Chicago, IL 60606
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VS2DIE-3 (R-028380-1 8/12)

DWS
INVESTMENTS
Deutsche Bank Group

JUNE 30, 2012

SEMIANNUAL REPORT

DWS VARIABLE SERIES II

DWS Dreman Small Mid Cap Value VIP

DWS INVESTMENTS
Deutsche Bank Group

Contents

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus or summary prospectus, if available, call (800) 728-3337 or your financial representative. We advise you to consider the Fund's objectives, risks, charges and expenses carefully before investing. The summary prospectus and prospectus contain this and other important information about the Fund. Please read the prospectus carefully before you invest.

Any fund that focuses in a particular segment of the market will generally be more volatile than a fund that invests more broadly. Stocks of small and medium-sized companies involve greater risk than securities of larger, more-established companies. The Fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

DWS Investments is part of Deutsche Bank's Asset Management division and, within the U.S., represents the retail asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.

NOT FDIC/NCUA INSURED NO BANK GUARANTEE MAY LOSE VALUE NOT A DEPOSIT
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

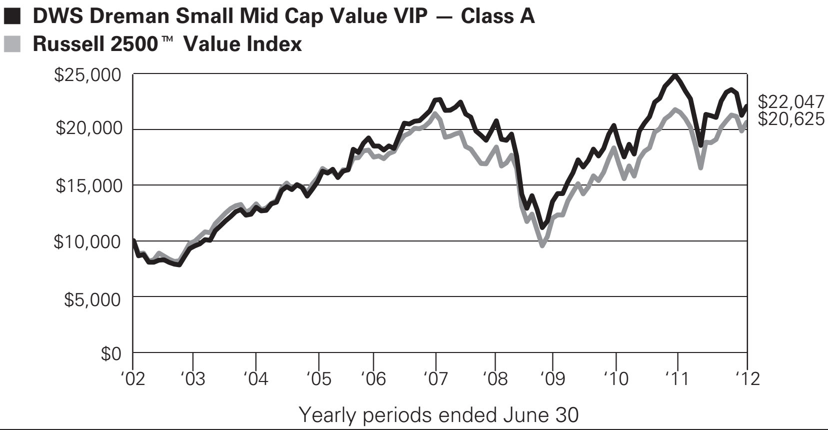
Performance Summary

June 30, 2012 (Unaudited)

Fund 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 contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2012 are 0.90% and 1.24% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment in DWS Dreman Small Mid Cap Value VIP



The Russell 2500™ Value Index is an unmanaged Index of those securities in the Russell 3000® Index with lower price-to-book ratios and lower forecasted growth values.

Index returns do not reflect any fees or expenses and it is not possible to invest directly into an index.

Comparative Results

DWS Dreman Small Mid Cap Value VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,477	$9,416	$15,509	$9,728	$22,047
	Average annual total return	4.77%	–5.84%	15.75%	–0.55%	8.23%
Russell 2500 Value Index	Growth of $10,000	$10,815	$9,851	$16,760	$9,902	$20,625
	Average annual total return	8.15%	–1.49%	18.78%	–0.20%	7.51%

DWS Dreman Small Mid Cap Value VIP		6-Month‡	1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$10,460	$9,386	$15,355	$9,562	$21,627
	Average annual total return	4.60%	–6.14%	15.37%	–0.89%	8.02%
Russell 2500 Value Index	Growth of $10,000	$10,815	$9,851	$16,760	$9,902	$20,625
	Average annual total return	8.15%	–1.49%	18.78%	–0.20%	7.51%

The growth of $10,000 is cumulative.

‡ Total returns shown for periods less than one year are not annualized.

* The Fund commenced offering Class B shares on July 1, 2002. The performance shown for the index is for the time period of June 30, 2002 through June 30, 2012, which is based on the performance period of the life of the class.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/12**	**12/31/11**
Common Stocks	99%	99%
Cash Equivalents	1%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/12**	**12/31/11**
Financials	28%	26%
Information Technology	18%	16%
Industrials	17%	17%
Consumer Discretionary	12%	12%
Health Care	6%	8%
Materials	6%	8%
Energy	6%	6%
Utilities	4%	4%
Consumer Staples	3%	3%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 5.

Following the Fund'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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management Team

The Fund's subadvisor is Dreman Value Management, L.L.C., a renowned investment firm with a 35-year history of style-pure value investing.

Mark Roach

Managing Director of Dreman Value Management, L.L.C. and Lead Portfolio Manager of the Fund. Joined the Fund in 2006.

David N. Dreman

Chairman of Dreman Value Management, L.L.C. and Portfolio Manager of the Fund. Joined the Fund in 2002.

E. Clifton Hoover, Jr., CFA

Chief Investment Officer and Managing Director of Dreman Value Management, L.L.C. and Portfolio Manager of the Fund. Joined the Fund in 2006.

Mario Tufano

Dreman Value Management, L.L.C., Associate Portfolio Manager of the Fund. Joined the Fund in 2010.

	Shares	Value ($)
Common Stocks 98.6%		
Consumer Discretionary 11.7%		
Auto Components 1.2%		
Cooper Tire & Rubber Co.	159,050	**2,789,737**
Hotels, Restaurants & Leisure 2.7%		
Brinker International, Inc. (a)	102,655	3,271,615
International Speedway Corp. "A"	116,975	3,062,405
		6,334,020
Household Durables 1.1%		
Whirlpool Corp. (a)	44,150	**2,700,214**
Leisure Equipment & Products 1.3%		
Mattel, Inc.	96,125	**3,118,295**
Media 1.5%		
Meredith Corp. (a)	108,375	**3,461,498**
Multiline Retail 1.4%		
Big Lots, Inc.* (a)	79,949	**3,261,120**
Textiles, Apparel & Luxury Goods 2.5%		
Hanesbrands, Inc.* (a)	123,975	3,437,827
The Jones Group, Inc. (a)	247,215	2,363,375
		5,801,202
Consumer Staples 3.1%		
Beverages 1.8%		
Constellation Brands, Inc. "A"*	153,650	**4,157,769**
Household Products 1.3%		
Energizer Holdings, Inc.* (a)	39,775	**2,993,069**
Energy 5.4%		
Energy Equipment & Services 3.2%		
Atwood Oceanics, Inc.*	70,565	2,670,179
Nabors Industries Ltd.*	201,925	2,907,720
Superior Energy Services, Inc.*	96,400	1,950,172
		7,528,071
Oil, Gas & Consumable Fuels 2.2%		
Arch Coal, Inc. (a)	101,600	700,024
Rosetta Resources, Inc.*	62,100	2,275,344
Ultra Petroleum Corp.* (a)	93,372	2,154,092
		5,129,460
Financials 27.9%		
Capital Markets 1.6%		
Raymond James Financial, Inc. (a)	107,825	**3,691,928**
Commercial Banks 10.4%		
Associated Banc-Corp.	259,250	3,419,507
Bank of Hawaii Corp. (a)	69,225	3,180,889
BOK Financial Corp. (a)	59,700	3,474,540
East West Bancorp., Inc.	196,075	4,599,919
Fulton Financial Corp.	320,625	3,203,044
Webster Financial Corp.	161,400	3,495,924
Zions Bancorp. (a)	154,125	2,993,108
		24,366,931
Insurance 8.6%		
Allied World Assurance Co. Holdings AG	51,525	4,094,692
Argo Group International Holdings Ltd. (a)	108,063	3,163,004
Axis Capital Holdings Ltd.	96,700	3,147,585
Everest Re Group Ltd. (a)	41,475	4,292,248
Hartford Financial Services Group, Inc.	173,775	3,063,653
Unum Group (a)	129,900	2,484,987
		20,246,169
Real Estate Investment Trusts 7.3%		
CBL & Associates Properties, Inc. (REIT) (a)	189,825	3,709,181
CommonWealth REIT (REIT)	130,681	2,498,621
Entertainment Properties Trust (REIT) (a)	73,775	3,032,890
Hospitality Properties Trust (REIT)	151,300	3,747,701
Weingarten Realty Investors (REIT) (a)	154,025	4,057,018
		17,045,411
Health Care 7.2%		
Health Care Equipment & Supplies 1.5%		
Teleflex, Inc.	58,825	**3,583,031**
Health Care Providers & Services 3.1%		
LifePoint Hospitals, Inc.* (a)	91,575	3,752,743
Owens & Minor, Inc. (a)	117,875	3,610,511
		7,363,254
Life Sciences Tools & Services 1.4%		
Charles River Laboratories International, Inc.*	96,275	**3,153,969**
Pharmaceuticals 1.2%		
Endo Health Solutions, Inc.* (a)	90,400	**2,800,592**
Industrials 15.5%		
Aerospace & Defense 2.5%		
Alliant Techsystems, Inc.	46,650	2,359,090
Spirit AeroSystems Holdings, Inc. "A"* (a)	141,400	3,369,562
		5,728,652
Commercial Services & Supplies 2.0%		
Pitney Bowes, Inc. (a)	148,050	2,216,309
The Brink's Co.	104,625	2,425,207
		4,641,516
Construction & Engineering 2.1%		
Tutor Perini Corp.*	160,725	2,036,386
URS Corp.	84,375	2,943,000
		4,979,386
Electrical Equipment 2.6%		
General Cable Corp.*	101,937	2,644,246
Hubbell, Inc. "B"	45,125	3,517,042
		6,161,288
Machinery 3.6%		
Crane Co.	76,800	2,793,984
Oshkosh Corp.*	135,575	2,840,296
SPX Corp. (a)	43,400	2,834,888
		8,469,168
Road & Rail 1.1%		
AMERCO (a)	28,050	**2,523,659**
Trading Companies & Distributors 1.6%		
Textainer Group Holdings Ltd. (a)	102,575	**3,785,018**

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

	Shares	Value ($)
Information Technology 17.5%		
Communications Equipment 1.7%		
Arris Group, Inc.*	277,750	**3,863,503**
Computers & Peripherals 2.6%		
NCR Corp.*	191,675	4,356,773
Synaptics, Inc.* (a)	61,036	1,747,460
		6,104,233
Electronic Equipment, Instruments & Components 2.6%		
Arrow Electronics, Inc.*	78,015	2,559,672
Jabil Circuit, Inc.	170,600	3,468,298
		6,027,970
IT Services 3.7%		
Amdocs Ltd.* (a)	100,850	2,997,262
DST Systems, Inc.	68,175	3,702,584
ManTech International Corp. "A" (a)	88,275	2,071,814
		8,771,660
Semiconductors & Semiconductor Equipment 5.1%		
KLA-Tencor Corp. (a)	68,700	3,383,475
Microsemi Corp.*	160,975	2,976,428
PMC-Sierra, Inc.*	466,650	2,865,231
Teradyne, Inc.* (a)	197,700	2,779,662
		12,004,796
Software 1.8%		
Synopsys, Inc.*	142,850	**4,204,076**
Materials 6.3%		
Chemicals 0.9%		
Huntsman Corp.	155,993	**2,018,549**
Containers & Packaging 2.2%		
Owens-Illinois, Inc.*	112,300	2,152,791
Rock-Tenn Co. "A"	55,325	3,017,979
		5,170,770
Metals & Mining 3.2%		
Coeur d'Alene Mines Corp.*	119,950	2,106,322
IAMGOLD Corp. (a)	163,375	1,927,825
Reliance Steel & Aluminum Co. (a)	70,925	3,581,713
		7,615,860
Utilities 4.0%		
Electric Utilities 1.4%		
Portland General Electric Co.	126,650	**3,376,489**
Gas Utilities 1.3%		
AGL Resources, Inc. (a)	75,100	**2,910,125**
Multi-Utilities 1.3%		
Ameren Corp.	90,975	**3,051,301**
Total Common Stocks (Cost $205,057,792)		**230,933,759**
Securities Lending Collateral 30.3%		
Daily Assets Fund Institutional, 0.24% (b) (c) (Cost $71,020,986)	71,020,986	**71,020,986**
Cash Equivalents 1.5%		
Central Cash Management Fund, 0.14% (b) (Cost $3,459,783)	3,459,783	**3,459,783**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $279,538,561)†	130.4	**305,414,528**
Other Assets and Liabilities, Net	(30.4)	**(71,147,499)**
Net Assets	100.0	**234,267,029**

* Non-income producing security.

† The cost for federal income tax purposes was $280,116,649. At June 30, 2012, net unrealized appreciation for all securities based on tax cost was $25,297,879. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $47,450,792 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $22,152,913.

(a) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2012 amounted to $71,276,920, which is 30.4% of net assets.

(b) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(c) Represents collateral held in connection with securities lending. Income earned by the Fund is net of borrower rebates.

REIT: Real Estate Investment Trust

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2012 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks (d)	$230,933,759	$ —	$ —	$230,933,759
Short-Term Investments (d)	74,480,769	—	—	74,480,769
Total	**$305,414,528**	**$ —**	**$ —**	**$305,414,528**

There have been no transfers between Level 1 and Level 2 fair value measurements during the period ended June 30, 2012.

(d) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of June 30, 2012 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $205,057,792) — including $71,276,920 of securities loaned	$ 230,933,759
Investment in Daily Assets Fund Institutional (cost $71,020,986)*	71,020,986
Investment in Central Cash Management Fund (cost $3,459,783)	3,459,783
Total investments in securities, at value (cost $279,538,561)	305,414,528
Receivable for Fund shares sold	35,951
Dividends receivable	271,920
Interest receivable	25,108
Other assets	42
Total assets	305,747,549
Liabilities	
Payable upon return of securities loaned	71,020,986
Payable for Fund shares redeemed	245,735
Accrued management fee	120,414
Acrued Trustees' fees	80
Accrued expenses and payables	93,305
Total liabilities	71,480,520
Net assets, at value	**$ 234,267,029**
Net Assets Consist of:	
Undistributed net investment income	1,344,333
Net unrealized appreciation (depreciation) on investments	25,875,967
Accumulated net realized gain (loss)	(78,716,973)
Paid-in capital	285,763,702
Net assets, at value	**$ 234,267,029**
Class A	
Net Asset Value, offering and redemption price per share ($214,066,410 ÷ 18,182,159 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 11.77**
Class B	
Net Asset Value, offering and redemption price per share ($20,200,619 ÷ 1,713,801 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 11.79**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2012 (Unaudited)

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $310)	$ 2,233,523
Interest	15,785
Income distributions — Central Cash Management Fund	2,900
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	124,497
Total income	2,376,705
Expenses:	
Management fee	794,033
Administration fee	122,233
Services to shareholders	4,514
Distribution service fee (Class B)	26,398
Record keeping fees (Class B)	9,753
Custodian fee	5,616
Professional fees	32,676
Reports to shareholders	35,306
Trustees' fees and expenses	5,372
Other	6,611
Total expenses	1,042,512
Net investment income (loss)	**1,334,193**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from investments	6,804,529
Change in net unrealized appreciation (depreciation) on investments	3,322,862
Net gain (loss)	**10,127,391**
Net increase (decrease) in net assets resulting from operations	**$ 11,461,584**

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, 2012 (Unaudited)	Year Ended December 31, 2011
Operations:		
Net investment income (loss)	$ 1,334,193	$ 2,755,641
Net realized gain (loss)	6,804,529	18,942,284
Change in net unrealized appreciation (depreciation)	3,322,862	(38,142,173)
Net increase (decrease) in net assets resulting from operations	11,461,584	(16,444,248)
Distributions to shareholders from:		
Net investment income:		
Class A	(2,544,018)	(2,506,080)
Class B	(170,068)	(161,946)
Total distributions	(2,714,086)	(2,668,026)
Fund share transactions:		
Class A		
Proceeds from shares sold	10,005,463	34,090,411
Reinvestment of distributions	2,544,018	2,506,080
Payments for shares redeemed	(21,995,322)	(51,431,426)
Net increase (decrease) in net assets from Class A share transactions	(9,445,841)	(14,834,935)
Class B		
Proceeds from shares sold	1,745,194	3,518,495
Reinvestment of distributions	170,068	161,946
Payments for shares redeemed	(2,872,009)	(7,516,325)
Net increase (decrease) in net assets from Class B share transactions	(956,747)	(3,835,884)
Increase (decrease) in net assets	(1,655,090)	(37,783,093)
Net assets at beginning of period	235,922,119	273,705,212
Net assets at end of period (including undistributed net investment income of $1,344,333 and $2,724,226, respectively)	**$ 234,267,029**	**$ 235,922,119**

Other Information		
Class A		
Shares outstanding at beginning of period	18,969,648	20,271,172
Shares sold	824,072	2,809,599
Shares issued to shareholders in reinvestment of distributions	207,168	187,020
Shares redeemed	(1,818,729)	(4,298,143)
Net increase (decrease) in Class A shares	(787,489)	(1,301,524)
Shares outstanding at end of period	**18,182,159**	**18,969,648**
Class B		
Shares outstanding at beginning of period	1,796,701	2,147,844
Shares sold	140,986	291,322
Shares issued to shareholders in reinvestment of distributions	13,826	12,068
Shares redeemed	(237,712)	(654,533)
Net increase (decrease) in Class B shares	(82,900)	(351,143)
Shares outstanding at end of period	**1,713,801**	**1,796,701**

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

Financial Highlights

Class A	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$11.36**	**$12.21**	**$10.04**	**$ 7.93**	**$20.12**	**$22.93**
Income (loss) from investment operations:						
Net investment income[a]	.07	.13	.12	.16	.13	.18
Net realized and unrealized gain (loss)	.48	(.85)	2.19	2.11	(4.92)	.54
Total from investment operations	.55	(.72)	2.31	2.27	(4.79)	.72
Less distributions from:						
Net investment income	(.14)	(.13)	(.14)	(.16)	(.29)	(.23)
Net realized gains	—	—	—	—	(7.11)	(3.30)
Total distributions	(.14)	(.13)	(.14)	(.16)	(7.40)	(3.53)
Net asset value, end of period	**$11.77**	**$11.36**	**$12.21**	**$10.04**	**$ 7.93**	**$20.12**
Total Return (%)	4.77**	(6.08)	23.07	29.70	(33.42)[b]	3.06
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	214	216	247	235	223	468
Ratio of expenses before expense reductions (%)	.82*	.81	.82	.79	.83	.78
Ratio of expenses after expense reductions (%)	.82*	.81	.82	.79	.82	.78
Ratio of net investment income (%)	1.12*	1.08	1.14	1.92	1.13	.85
Portfolio turnover rate (%)	5**	36	38	72	49	110

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

* Annualized

** Not annualized

Class B	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$11.36**	**$12.20**	**$10.03**	**$ 7.92**	**$20.08**	**$22.88**
Income (loss) from investment operations:						
Net investment income[a]	.05	.09	.08	.13	.09	.10
Net realized and unrealized gain (loss)	.48	(.85)	2.19	2.12	(4.92)	.54
Total from investment operations	.53	(.76)	2.27	2.25	(4.83)	.64
Less distributions from:						
Net investment income	(.10)	(.08)	(.10)	(.14)	(.22)	(.14)
Net realized gains	—	—	—	—	(7.11)	(3.30)
Total distributions	(.10)	(.08)	(.10)	(.14)	(7.33)	(3.44)
Net asset value, end of period	**$11.79**	**$11.36**	**$12.20**	**$10.03**	**$ 7.92**	**$20.08**
Total Return (%)	4.60**	(6.33)	22.66	29.28	(33.67)[b]	2.67
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	20	20	26	23	24	34
Ratio of expenses before expense reductions (%)	1.17*	1.15	1.17	1.14	1.18	1.16
Ratio of expenses after expense reductions (%)	1.17*	1.15	1.17	1.14	1.17	1.16
Ratio of net investment income (%)	.78*	.74	.79	1.57	.78	.47
Portfolio turnover rate (%)	5**	36	38	72	49	110

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

* Annualized

** Not annualized

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

DWS Dreman Small Mid Cap Value VIP (the "Fund") is a diversified series of DWS Variable Series II (the "Trust"), which is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company organized as a Massachusetts business trust.

Multiple Classes of Shares of Beneficial Interest. The Fund offers two classes of shares (Class A shares and Class B shares). Sales of Class B shares are subject to recordkeeping 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 Fund. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain fund-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 Rule 12b-1 fee and recordkeeping 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 Fund'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 Fund in the preparation of its financial statements.

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.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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.

Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

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 Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. 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 acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. 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 gain/appreciation and loss/depreciation on investments.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the issuer of securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Taxes. The Fund's 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 income to its shareholders.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $84,943,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2017, the expiration date, whichever occurs first.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. Net investment income of the Fund, if any, is declared and distributed to shareholders annually. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the Fund if not distributed and, therefore, will be distributed to shareholders at least annually. The Fund may also make additional distributions for tax purposes if necessary.

The timing and characterization of certain income and capital gain 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 income received from Real Estate Investment Trusts 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 Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

The tax character of current year distributions will be determined at the end of the current fiscal year.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

Contingencies. In the normal course of business, the Fund may enter into contracts with service providers that contain general 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 been made. However, based on experience, the Fund expects the risk of loss to be remote.

Real Estate Investment Trusts. The Fund periodically recharacterizes distributions received from a Real Estate Investment Trust ("REIT") investment based on information provided by the REIT into the following categories: ordinary income, long-term and short-term capital gains, and return of capital. If information is not available timely from a REIT, the recharacterization will be estimated for financial reporting purposes and a recharacterization will be made to the accounting records in the following year when such information becomes available. Distributions received from REITs in excess of income are recorded as either a reduction of cost of investments or realized gains. The Fund distinguishes between dividends on a tax basis and a financial reporting basis and only distributions in excess of tax basis earnings and profits are reported in the financial statements as a return of capital.

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. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Purchases and Sales of Securities

During the six months ended June 30, 2012, purchases and sales of investment transactions (excluding short-term investments) aggregated $11,036,762 and $24,652,852, respectively.

C. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund 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 Fund or delegates such responsibility to the Fund's subadvisor.

Dreman Value Management, L.L.C. ("DVM") serves as subadvisor. As a subadvisor to the Fund, DVM makes investment decisions and buys and sells securities for the Fund. DVM is paid by the Advisor for the services DVM provides to the Fund.

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays a monthly management fee based on the Fund's average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

First $250 million	.650%
Next $750 million	.620%
Next $1.5 billion	.600%
Next $2.5 billion	.580%
Next $2.5 billion	.550%
Next $2.5 billion	.540%
Next $2.5 billion	.530%
Over $12.5 billion	.520%

Accordingly, for the six months ended June 30, 2012, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate of 0.65% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the six months ended June 30, 2012, the Administration Fee was $122,233, of which $18,525 is unpaid.

Service Provider Fees. DWS Investments Service Company ("DISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2012, the amounts charged to the Fund by DISC were as follows:

Service to Shareholders	Total Aggregated	Unpaid at June 30, 2012
Class A	$ 278	$ 87
Class B	200	54
	$ 478	**$ 141**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plans, DWS Investments Distributors, Inc. ("DIDI") received a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the six months ended June 30, 2012, the Distribution Service Fee aggregated $26,398, of which $3,993 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2012, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $12,790, of which $4,133 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

D. Ownership of the Fund

At June 30, 2012, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 37%, 23% and 13%. Three participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 39%, 12% and 12%.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $375 million revolving credit facility provided by a syndication of banks. The Fund may borrow 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 on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at June 30, 2012.

Information About Your Fund's Expenses

(Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (January 1, 2012 to June 30, 2012).

The tables illustrate your Fund's expenses in two ways:

- **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund'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% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund'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. 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, 2012

Actual Fund Return	Class A	Class B
Beginning Account Value 1/1/12	$1,000.00	$1,000.00
Ending Account Value 6/30/12	$1,047.70	$1,046.00
Expenses Paid per $1,000*	$ 4.17	$ 5.95
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/12	$1,000.00	$1,000.00
Ending Account Value 6/30/12	$1,020.79	$1,019.05
Expenses Paid per $1,000*	$ 4.12	$ 5.87

* Expenses are equal to the Fund's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by 182 (the number of days in the most recent six-month period), then divided by 366.

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Dreman Small Mid Cap Value VIP	.82%	1.17%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

Proxy Voting

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 are available on our Web site — www.dws-investments.com (click on "proxy voting" at the bottom of the page) — 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) 728-3337.

Summary of Management Fee Evaluation by Independent Fee Consultant

September 26, 2011

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds (formerly the DWS Scudder Funds). My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2011, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007, 2008, 2009 and 2010.

Qualifications

For more than 35 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past ten years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds and have served in various leadership and financial oversight capacities with non-profit organizations.

Evaluation of Fees for each DWS Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 109 mutual fund portfolios in the DWS Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

- The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.
- The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

DeAM's Fees for Similar Services to Others

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Fund. These similar products included the other DWS Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

Costs and Profit Margins

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

Economies of Scale

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Fund compares with this industry observation, I reviewed:

The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.

Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.

How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

Quality of Service — Performance

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

Complex-Level Considerations

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

I reviewed DeAM's profitability analysis for all DWS Funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.

I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.

I considered how aggregated DWS Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.

I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

Findings

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Funds are reasonable.

Thomas H. Mack

Thomas H. Mack
President, Thomas H. Mack & Co., Inc.

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VS2DSMC-3 (R-028381-1 8/12)

DWS INVESTMENTS
Deutsche Bank Group

JUNE 30, 2012

SEMIANNUAL REPORT

DWS VARIABLE SERIES II

DWS Global Income Builder VIP

(formerly DWS Balanced VIP)

DWS INVESTMENTS

Deutsche Bank Group

Contents

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus or summary prospectus, if available, call (800) 728-3337 or your financial representative. We advise you to consider the Fund's objectives, risks, charges and expenses carefully before investing. The summary prospectus and prospectus contain this and other important information about the Fund. Please read the prospectus carefully before you invest.

Although allocation among different asset categories generally limits risk, fund management may favor an asset category that underperforms other assets or markets as a whole. Bond investments are subject to interest-rate and credit risks. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Dividends are not guaranteed. If the dividend-paying stocks held by the Fund reduce or stop paying dividends, the Fund's ability to generate income may be adversely affected. Because ETFs trade on a securities exchange, their shares may trade at a premium or discount to their net asset value. ETFs also incur fees and expenses so they may not fully match the performance of the indexes they are designed to track. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. The Fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

Performance Summary

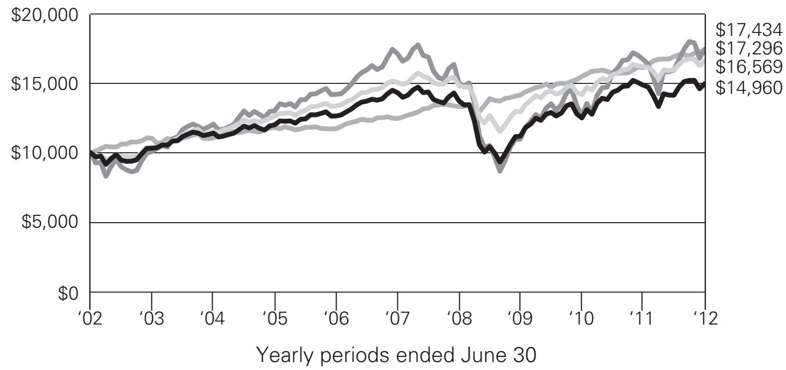
June 30, 2012 (Unaudited)

Fund 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 contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns.

The gross expense ratio of the Fund, as stated in the fee table of the prospectus dated May 1, 2012 is 0.62% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Growth of an Assumed $10,000 Investment in DWS Global Income Builder VIP

■ **DWS Global Income Builder VIP — Class A**
■ **Russell 1000® Index**
■ **Barclays U.S. Aggregate Bond Index**
■ **S&P® Target Risk Moderate Index**



The Russell 1000® Index is an unmanaged index that measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents approximately 92% of the total market capitalization of the Russell 3000® Index.

The Barclays U.S. Aggregate Bond Index is an unmanaged, market-value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities.

The S&P® Target Risk Moderate Index is designed to measure the performance of S&P's proprietary moderate target risk allocation model. The S&P® Target Risk Moderate Index seeks to provide significant exposure to fixed income, while also allocating a smaller portion of exposure to equities in order to seek current income, some capital preservation, and an opportunity for moderate to low capital appreciation.

Index returns do not reflect any fees or expenses and it is not possible to invest directly into an index.

Comparative Results

DWS Global Income Builder VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,589	$10,073	$13,369	$10,451	$14,960
	Average annual total return	5.89%	0.73%	10.16%	0.89%	4.11%
Russell 1000® Index	Growth of $10,000	$10,938	$10,437	$15,869	$10,195	$17,434
	Average annual total return	9.38%	4.37%	16.64%	0.39%	5.72%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$10,237	$10,747	$12,227	$13,890	$17,296
	Average annual total return	2.37%	7.47%	6.93%	6.79%	5.63%
S&P® Target Risk Moderate Index	Growth of $10,000	$10,384	$10,253	$12,802	$11,007	$16,569
	Average annual total return	3.84%	2.53%	8.58%	1.94%	5.18%

The growth of $10,000 is cumulative.

‡ Total returns shown for periods less than one year are not annualized.

Effective May 1, 2012, the Fund's name, investment objective and certain investment strategies changed. The Fund's past performance may have been different if the Fund was managed using the current objective and investment strategies.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/12**	**12/31/11**
Common Stocks	51%	53%
Exchange-Traded Funds — Equity	—	5%
Total Equity	**51%**	**58%**
Exchange-Traded Funds — Fixed income	—	11%
Corporate Bonds	19%	7%
Government & Agency Obligations	11%	10%
Collaterized Mortgage Obligations	2%	—
Mortgage-Backed Securities Pass-Throughs	1%	7%
Loan Participations and Assignments	1%	—
Municipal Bonds and Notes	0%	1%
Commercial Mortgage-Backed Securities	0%	1%
Asset-Backed	0%	1%
Total Fixed Income	**34%**	**38%**
Cash Equivalents	**15%**	**4%**
	100%	100%

Sector Diversification (As a % of Equities, Corporate Bonds, Loan Participations and Assignments, Preferred Securities, and Other Investments)	**6/30/12**	**12/31/11**
Financials	15%	15%
Consumer Staples	14%	10%
Energy	14%	12%
Telecommunication Services	12%	4%
Information Technology	8%	15%
Health Care	8%	12%
Materials	8%	6%
Consumer Discretionary	8%	10%
Industrials	7%	10%
Utilities	6%	6%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 5.

Following the Fund'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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management Team

William Chepolis, CFA
Thomas Schuessler, PhD.
John D. Ryan
Fabian Degen
Portfolio Managers

Investment Portfolio

June 30, 2012 (Unaudited)

	Shares	Value ($)
Common Stocks 51.8%		
Consumer Discretionary 3.0%		
Distributors 0.6%		
Genuine Parts Co.	26,226	**1,580,117**
Hotels, Restaurants & Leisure 0.0%		
Trump Entertainment Resorts, Inc.*	2	**0**
Media 1.7%		
Pearson PLC	137,000	2,720,974
Postmedia Network Canada Corp.*	623	483
Vertis Holdings, Inc.*	111	1
Wolters Kluwer NV	110,531	1,759,603
		4,481,061
Textiles, Apparel & Luxury Goods 0.7%		
VF Corp.	12,600	**1,681,470**
Consumer Staples 9.3%		
Beverages 1.8%		
PepsiCo, Inc.	65,968	**4,661,299**
Food & Staples Retailing 0.9%		
Metcash Ltd. (a)	654,000	**2,263,762**
Food Products 1.7%		
Nestle SA (Registered)	36,300	2,165,347
Unilever NV (CVA) (a)	66,100	2,212,393
		4,377,740
Household Products 1.6%		
Procter & Gamble Co.	69,619	**4,264,164**
Tobacco 3.3%		
Altria Group, Inc.	86,670	2,994,448
British American Tobacco PLC	70,600	3,593,422
Imperial Tobacco Group PLC	54,100	2,081,610
		8,669,480
Energy 7.7%		
Energy Equipment & Services 2.0%		
Transocean Ltd.	70,528	3,154,717
WorleyParsons Ltd.	74,592	1,937,489
		5,092,206
Oil, Gas & Consumable Fuels 5.7%		
Canadian Natural Resources Ltd. (b)	60,600	1,625,563
Canadian Natural Resources Ltd. (b)	19,470	522,770
ConocoPhillips	53,641	2,997,459
Enbridge, Inc.	59,000	2,356,291
EOG Resources, Inc.	18,486	1,665,773
Phillips 66*	46,069	1,531,334
TransCanada Corp. (a)	59,200	2,481,155
Woodside Petroleum Ltd.	54,700	1,751,737
		14,932,082
Financials 5.0%		
Commercial Banks 1.5%		
Bank of Nova Scotia (a)	39,700	2,056,554
Toronto-Dominion Bank	24,600	1,925,281
		3,981,835
Insurance 3.5%		
Old Mutual PLC	124,572	296,475
PartnerRe Ltd.	60,150	4,551,550
Powszechny Zaklad Ubezpieczen SA	18,700	1,879,274
Sampo Oyj "A"	92,000	2,391,506
		9,118,805
Real Estate Investment Trusts 0.0%		
Corio NV (REIT)	81	**3,568**
Health Care 4.9%		
Health Care Providers & Services 1.9%		
Rhoen-Klinikum AG (a)	205,300	**4,906,652**
Pharmaceuticals 3.0%		
Novartis AG (Registered)	37,653	2,100,282
Roche Holding AG (Genusschein)	16,200	2,796,564
Sanofi	40,368	3,061,148
		7,957,994
Industrials 4.3%		
Aerospace & Defense 0.5%		
BAE Systems PLC	314,200	**1,421,875**
Air Freight & Logistics 0.5%		
Singapore Post Ltd.	1,590,000	**1,327,058**
Building Products 0.0%		
Congoleum Corp.*	3,800	**0**
Commercial Services & Supplies 0.0%		
Quad Graphics, Inc.	3	**43**
Industrial Conglomerates 2.4%		
Koninklijke Philips Electronics NV	125,450	2,480,597
Smiths Group PLC	233,300	3,713,429
		6,194,026
Road & Rail 0.9%		
Canadian National Railway Co.	26,100	**2,207,259**
Information Technology 4.8%		
Computers & Peripherals 1.6%		
Diebold, Inc.	65,300	2,410,223
Wincor Nixdorf AG	49,800	1,765,302
		4,175,525
IT Services 0.6%		
Automatic Data Processing, Inc.	27,800	**1,547,348**
Semiconductors & Semiconductor Equipment 2.6%		
Intel Corp.	160,766	4,284,414
Taiwan Semiconductor Manufacturing Co., Ltd. (ADR)*	176,550	2,464,638
		6,749,052
Materials 3.9%		
Chemicals 1.6%		
Air Liquide SA	19,030	2,177,234
Air Products & Chemicals, Inc.	25,562	2,063,620
		4,240,854
Construction Materials 0.0%		
Wolverine Tube, Inc.*	366	**8,963**
Containers & Packaging 1.1%		
Sealed Air Corp.	98,350	1,518,524
Sonoco Products Co.	42,183	1,271,818
		2,790,342

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

	Shares	Value ($)
Metals & Mining 1.2%		
Franco-Nevada Corp.	66,000	**2,984,618**

Telecommunication Services 5.4%

	Shares	Value ($)
Diversified Telecommunication Services 3.2%		
AT&T, Inc. (a)	44,314	1,580,237
Belgacom SA	68,193	1,937,485
Chunghwa Telecom Co., Ltd. (ADR) (a)	42,200	1,326,346
Koninklijke (Royal) KPN NV	86,900	832,103
Telus Corp.	43,270	2,598,495
		8,274,666
Wireless Telecommunication Services 2.2%		
NTT DoCoMo, Inc.	1,711	2,847,408
SK Telecom Co., Ltd. (ADR) (a)	111,000	1,343,100
Vodafone Group PLC	607,300	1,706,292
		5,896,800

Utilities 3.5%

	Shares	Value ($)
Electric Utilities 1.7%		
Exelon Corp.	36,922	1,389,006
FirstEnergy Corp.	35,934	1,767,593
Fortum Oyj	74,200	1,409,828
		4,566,427
Gas Utilities 1.0%		
UGI Corp.	86,842	**2,555,760**
Multi-Utilities 0.8%		
National Grid PLC	194,500	**2,058,710**
Total Common Stocks (Cost $134,075,497)		**134,971,561**

Warrants 0.0%

Consumer Discretionary 0.0%

	Shares	Value ($)
Reader's Digest Association, Inc., Expiration Date 2/19/2014*	80	**14**

Materials 0.0%

	Shares	Value ($)
Hercules Trust II, Expiration Date 3/31/2029*	170	**1,359**
Total Warrants (Cost $30,283)		**1,373**

Corporate Bonds 19.5%

Consumer Discretionary 2.5%

	Principal Amount ($)(c)	Value ($)
AMC Entertainment, Inc., 8.75%, 6/1/2019	135,000	144,787
Asbury Automotive Group, Inc., 7.625%, 3/15/2017	35,000	36,225
Avis Budget Car Rental LLC, 8.25%, 1/15/2019	15,000	16,088
Block Communications, Inc., 144A, 7.25%, 2/1/2020	20,000	20,300
Cablevision Systems Corp., 8.625%, 9/15/2017	250,000	278,750
Caesar's Entertainment Operating Co., Inc.:		
144A, 8.5%, 2/15/2020	500,000	503,750
11.25%, 6/1/2017	80,000	87,300
CBS Corp., 3.375%, 3/1/2022	125,000	124,537
CCO Holdings LLC:		
6.5%, 4/30/2021	200,000	213,000
6.625%, 1/31/2022	705,000	754,350
7.375%, 6/1/2020	10,000	10,988
Cequel Communications Holdings I LLC, 144A, 8.625%, 11/15/2017	645,000	694,987
Clear Channel Communications, Inc., 9.0%, 3/1/2021	85,000	73,950
Clear Channel Worldwide Holdings, Inc.:		
144A, 7.625%, 3/15/2020	10,000	9,575
144A, 7.625%, 3/15/2020	225,000	219,937
Series B, 9.25%, 12/15/2017	50,000	54,500
Cumulus Media Holdings, Inc., 7.75%, 5/1/2019 (a)	20,000	18,850
Desarrolladora Homex SAB de CV, 144A, 9.75%, 3/25/2020 (a)	250,000	262,500
DIRECTV Holdings LLC, 6.35%, 3/15/2040	51,000	57,780
Discovery Communications LLC, 3.3%, 5/15/2022	80,000	80,738
DISH DBS Corp.:		
6.625%, 10/1/2014	40,000	42,900
7.125%, 2/1/2016	35,000	38,412
7.875%, 9/1/2019	230,000	265,075
Fontainebleau Las Vegas Holdings LLC, 144A, 11.0%, 6/15/2015*	25,000	16
Great Canadian Gaming Corp., 144A, 7.25%, 2/15/2015	30,000	30,413
Harron Communications LP, 144A, 9.125%, 4/1/2020	10,000	10,350
Hertz Corp.:		
6.75%, 4/15/2019 (a)	35,000	36,400
144A, 6.75%, 4/15/2019	10,000	10,400
Libbey Glass, Inc., 144A, 6.875%, 5/15/2020	30,000	30,825
Lowe's Companies, Inc., 1.625%, 4/15/2017	500,000	503,706
Mediacom Broadband LLC, 8.5%, 10/15/2015 (a)	20,000	20,550
Mediacom LLC, 9.125%, 8/15/2019	270,000	296,325
MGM Resorts International, 144A, 8.625%, 2/1/2019 (a)	45,000	48,150
National CineMedia LLC, 144A, 6.0%, 4/15/2022	10,000	10,175
NBCUniversal Media LLC, 5.95%, 4/1/2041	127,000	149,921
Sonic Automotive, Inc., 144A, 7.0%, 7/15/2022 (d)	25,000	25,875
Time Warner Cable, Inc., 4.0%, 9/1/2021 (a)	150,000	157,628
Time Warner, Inc.:		
5.875%, 11/15/2016	147,000	172,141
7.625%, 4/15/2031	175,000	226,037
Travelport LLC, 5.092%**, 9/1/2014	20,000	12,750
Unitymedia Hessen GmbH & Co., KG, 144A, 8.125%, 12/1/2017	365,000	392,375
Univision Communications, Inc., 144A, 6.875%, 5/15/2019	25,000	25,750
Whirlpool Corp., 4.7%, 6/1/2022	90,000	90,992
Yum! Brands, Inc.:		
3.875%, 11/1/2020	210,000	225,680
5.3%, 9/15/2019	65,000	74,697
		6,560,435

Consumer Staples 0.8%

	Principal Amount ($)(c)	Value ($)
Anheuser-Busch InBev Worldwide, Inc., 7.75%, 1/15/2019	500,000	660,377
Constellation Brands, Inc., 6.0%, 5/1/2022	5,000	5,375

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		Principal Amount ($)(c)	Value ($)
CVS Caremark Corp., 5.75%, 5/15/2041		65,000	77,377
Grupo Bimbo SAB de CV, 144A, 4.5%, 1/25/2022		250,000	265,949
JBS U.S.A. LLC, 144A, 8.25%, 2/1/2020		370,000	359,825
Kroger Co., 5.4%, 7/15/2040		110,000	115,619
Minerva Luxembourg SA, 144A, 12.25%, 2/10/2022		250,000	260,000
Pilgrim's Pride Corp., 7.875%, 12/15/2018		370,000	375,087
TreeHouse Foods, Inc., 7.75%, 3/1/2018		10,000	10,838
			2,130,447
Energy 2.1%			
Arch Coal, Inc., 7.25%, 6/15/2021 (a)		340,000	284,750
Chesapeake Energy Corp., 6.875%, 11/15/2020 (a)		210,000	206,850
Chesapeake Midstream Partners LP, 6.125%, 7/15/2022		15,000	14,700
Cimarex Energy Co., 5.875%, 5/1/2022		10,000	10,387
CONSOL Energy, Inc., 8.0%, 4/1/2017		100,000	103,750
Crosstex Energy LP, 144A, 7.125%, 6/1/2022		25,000	24,625
DCP Midstream LLC, 144A, 9.75%, 3/15/2019		200,000	259,282
Devon Energy Corp., 3.25%, 5/15/2022		135,000	137,347
Eagle Rock Energy Partners LP, 8.375%, 6/1/2019		50,000	49,875
Encana Corp., 5.15%, 11/15/2041		55,000	52,539
Enterprise Products Operating LLC, 6.125%, 10/15/2039		230,000	260,549
EP Energy LLC, 144A, 6.875%, 5/1/2019		15,000	15,675
EV Energy Partners LP, 8.0%, 4/15/2019		35,000	34,737
Halcon Resources Corp., 144A, 9.75%, 7/15/2020 (d)		50,000	49,323
Holly Energy Partners LP, 144A, 6.5%, 3/1/2020		10,000	10,075
IPIC GMTN Ltd., 144A, 6.875%, 11/1/2041		250,000	291,875
Kinder Morgan Energy Partners LP, 7.3%, 8/15/2033		360,000	431,821
Kodiak Oil & Gas Corp., 144A, 8.125%, 12/1/2019		10,000	10,300
Linn Energy LLC:			
144A, 6.25%, 11/1/2019		495,000	485,100
144A, 6.5%, 5/15/2019		25,000	24,750
Northern Oil & Gas, Inc., 144A, 8.0%, 6/1/2020		125,000	124,375
Oasis Petroleum, Inc., 7.25%, 2/1/2019		60,000	61,500
OGX Austria GmbH, 144A, 8.375%, 4/1/2022		250,000	215,625
ONEOK Partners LP, 6.15%, 10/1/2016		201,000	233,656
Pertamina Persero PT, 144A, 4.875%, 5/3/2022		250,000	250,625
Petroleos de Venezuela SA, 144A, 8.5%, 11/2/2017		250,000	203,125
Petroleos Mexicanos, 144A, 5.5%, 6/27/2044 (a)		500,000	511,250
Plains Exploration & Production Co.:			
6.125%, 6/15/2019		10,000	10,050
6.75%, 2/1/2022		40,000	40,800
Quicksilver Resources, Inc., 11.75%, 1/1/2016		245,000	238,569
Reliance Holdings U.S.A., Inc., 144A, 5.4%, 2/14/2022		250,000	249,985
SESI LLC, 144A, 7.125%, 12/15/2021		30,000	32,625
Stone Energy Corp., 8.625%, 2/1/2017		195,000	197,925
Swift Energy Co., 7.875%, 3/1/2022		20,000	20,100
Weatherford International Ltd., 5.125%, 9/15/2020		300,000	322,065
Williams Partners LP, 4.0%, 11/15/2021		56,000	58,171
			5,528,756
Financials 5.3%			
African Development Bank, 5.75%, 1/25/2016	AUD	500,000	546,266
Ally Financial, Inc.:			
5.5%, 2/15/2017		15,000	15,236
6.25%, 12/1/2017		260,000	273,861
ALROSA Finance SA, 144A, 7.75%, 11/3/2020		250,000	261,818
American International Group, Inc., 4.875%, 6/1/2022		200,000	204,644
AmeriGas Finance LLC:			
6.75%, 5/20/2020		10,000	10,200
7.0%, 5/20/2022		10,000	10,300
Banco Bradesco SA, 144A**, 2.566%, 5/16/2014		250,000	249,670
Banco de Bogota SA, 144A, 5.0%, 1/15/2017		250,000	263,750
Banco Latinoamericano de Comercio Exterior SA, 144A, 3.75%, 4/4/2017		250,000	248,750
Bancolombia SA, 5.95%, 6/3/2021		250,000	266,875
Berkshire Hathaway, Inc., 1.9%, 1/31/2017		140,000	142,769
Braskem America Finance Co., 144A, 7.125%, 7/22/2041 (a)		250,000	249,375
Bunge Ltd. Finance Corp., 4.1%, 3/15/2016		78,000	81,335
Calpine Construction Finance Co., LP, 144A, 8.0%, 6/1/2016		30,000	32,400
CIT Group, Inc.:			
5.0%, 5/15/2017		935,000	963,050
5.25%, 3/15/2018		10,000	10,325
144A, 7.0%, 5/2/2017		30,713	30,770
Citigroup, Inc., 4.5%, 1/14/2022		120,000	123,942
CNA Financial Corp., 5.75%, 8/15/2021		265,000	291,185
CNOOC Finance 2012 Ltd., 144A, 3.875%, 5/2/2022 (a)		250,000	258,570

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

	Principal Amount ($)(c)	Value ($)
Codere Finance Luxembourg SA, 144A, 9.25%, 2/15/2019	5,000	3,525
E*TRADE Financial Corp., 6.75%, 6/1/2016	615,000	625,762
Export Credit Bank of Turkey, 144A, 5.375%, 11/4/2016	250,000	258,125
Fibria Overseas Finance Ltd., 144A, 6.75%, 3/3/2021 (a)	150,000	149,700
Ford Motor Credit Co., LLC:		
3.0%, 6/12/2017	200,000	198,898
5.875%, 8/2/2021	260,000	289,252
Fresenius Medical Care U.S. Finance II, Inc.:		
144A, 5.625%, 7/31/2019	10,000	10,425
144A, 5.875%, 1/31/2022	10,000	10,413
Fresenius Medical Care U.S. Finance, Inc., 144A, 6.5%, 9/15/2018	10,000	10,875
General Electric Capital Corp., 2.9%, 1/9/2017	500,000	516,453
Hexion U.S. Finance Corp.:		
6.625%, 4/15/2020	305,000	312,625
8.875%, 2/1/2018	465,000	474,300
International Lease Finance Corp.:		
6.25%, 5/15/2019	395,000	402,406
8.625%, 1/15/2022	10,000	11,581
Itau Unibanco Holding SA, 144A, 5.65%, 3/19/2022	250,000	250,950
JPMorgan Chase & Co., 2.6%, 1/15/2016	700,000	706,576
Level 3 Financing, Inc., 8.625%, 7/15/2020	450,000	472,500
Lukoil International Finance BV, 144A, 7.25%, 11/5/2019	250,000	281,250
MPT Operating Partnership LP, (REIT), 6.375%, 2/15/2022	10,000	10,025
Nationwide Financial Services, Inc., 144A, 5.375%, 3/25/2021	119,000	122,878
Neuberger Berman Group LLC:		
144A, 5.625%, 3/15/2020	10,000	10,425
144A, 5.875%, 3/15/2022	10,000	10,450
Odebrecht Finance Ltd., 144A, 5.125%, 6/26/2022	250,000	247,575
Petrobras International Finance Co., 5.75%, 1/20/2020	250,000	273,470
PNC Bank NA, 6.875%, 4/1/2018	300,000	357,867
Prudential Financial, Inc., 7.375%, 6/15/2019	30,000	36,614
Reynolds Group Issuer, Inc., 144A, 7.125%, 4/15/2019	885,000	927,037
Santander U.S. Debt SA Unipersonal, 144A, 2.991%, 10/7/2013	500,000	480,781
SunTrust Banks, Inc., 3.6%, 4/15/2016	98,000	101,761
The Goldman Sachs Group, Inc., 6.15%, 4/1/2018	260,000	281,861
Toyota Motor Credit Corp., 2.0%, 9/15/2016	500,000	508,057
UPCB Finance III Ltd., 144A, 6.625%, 7/1/2020	150,000	152,250
UR Merger Sub Corp.:		
144A, 5.75%, 7/15/2018	15,000	15,600
144A, 7.375%, 5/15/2020	25,000	26,125
144A, 7.625%, 4/15/2022	230,000	240,925
10.875%, 6/15/2016	20,000	22,475
Vale Overseas Ltd., 8.25%, 1/17/2034	250,000	319,035
Virgin Media Finance PLC, Series 1, 9.5%, 8/15/2016	89,000	99,235
		13,765,153
Health Care 1.1%		
Amgen, Inc., 5.15%, 11/15/2041	150,000	156,587
Aviv Healthcare Properties LP, 7.75%, 2/15/2019	10,000	10,300
Express Scripts Holding Co.:		
6.25%, 6/15/2014	250,000	273,348
7.25%, 6/15/2019	160,000	201,184
Gilead Sciences, Inc., 4.4%, 12/1/2021 (a)	100,000	110,378
HCA Holdings, Inc., 7.75%, 5/15/2021 (a)	240,000	257,400
HCA, Inc.:		
5.875%, 3/15/2022	755,000	788,975
7.5%, 2/15/2022	400,000	436,000
8.5%, 4/15/2019	10,000	11,200
McKesson Corp., 4.75%, 3/1/2021	200,000	229,455
Physio-Control International, Inc., 144A, 9.875%, 1/15/2019	15,000	15,975
Tenet Healthcare Corp., 6.25%, 11/1/2018	245,000	259,088
		2,749,890
Industrials 1.0%		
ADT Corp., 144A, 3.5%, 7/15/2022 (d)	90,000	90,302
ARAMARK Corp., 8.5%, 2/1/2015	10,000	10,238
BE Aerospace, Inc.:		
6.875%, 10/1/2020	130,000	143,650
8.5%, 7/1/2018	40,000	43,750
Belden, Inc., 7.0%, 3/15/2017	25,000	25,750
Bombardier, Inc., 144A, 5.75%, 3/15/2022	525,000	523,031
Burlington Northern Santa Fe LLC, 3.45%, 9/15/2021	43,000	44,990
CSX Corp., 6.15%, 5/1/2037	370,000	453,885
Huntington Ingalls Industries, Inc., 6.875%, 3/15/2018	10,000	10,425
JSC Georgian Railway, 144A, 7.75%, 7/11/2022 (d)	250,000	249,502
Navios Maritime Holdings, Inc., 144A, 8.875%, 11/1/2017 (d)	55,000	55,133
Nortek, Inc., 8.5%, 4/15/2021	255,000	249,263
Transnet SOC Ltd., 144A, 4.5%, 2/10/2016	250,000	260,635
Urbi, Desarrollos Urbanos SAB de CV, 144A, 9.75%, 2/3/2022	250,000	263,750
Votorantim Cimentos SA, 144A, 7.25%, 4/5/2041	250,000	250,000
		2,674,304

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

	Principal Amount ($)(c)	Value ($)
Information Technology 1.3%		
Applied Materials, Inc., 5.85%, 6/15/2041	130,000	156,871
Avaya, Inc., 144A, 7.0%, 4/1/2019	585,000	542,587
CDW LLC, 8.5%, 4/1/2019	530,000	564,450
Equinix, Inc., 7.0%, 7/15/2021	470,000	517,000
First Data Corp., 144A, 7.375%, 6/15/2019	640,000	652,800
Freescale Semiconductor, Inc., 144A, 9.25%, 4/15/2018	415,000	444,050
Hewlett-Packard Co., 3.3%, 12/9/2016	200,000	209,050
Hughes Satellite Systems Corp.:		
6.5%, 6/15/2019	50,000	53,125
7.625%, 6/15/2021	165,000	179,438
MasTec, Inc., 7.625%, 2/1/2017	35,000	36,313
		3,355,684
Materials 1.9%		
Appleton Papers, Inc., 11.25%, 12/15/2015	15,000	16,013
Celulosa Arauco y Constitucion SA, 144A, 4.75%, 1/11/2022	250,000	255,571
China Oriental Group Co., Ltd., 144A, 7.0%, 11/17/2017	250,000	190,625
Corp Nacional del Cobre de Chile, 144A, 3.875%, 11/3/2021	250,000	262,971
Crown Americas LLC, 7.625%, 5/15/2017	10,000	10,800
CSN Resources SA, 144A, 6.5%, 7/21/2020	250,000	270,825
Dow Chemical Co., 4.25%, 11/15/2020	185,000	200,700
Dow Chemical Co/the, 4.125%, 11/15/2021	30,000	32,178
FMG Resources (August 2006) Pty Ltd.:		
144A, 6.0%, 4/1/2017	15,000	15,075
144A, 6.375%, 2/1/2016 (a)	250,000	253,125
144A, 6.875%, 4/1/2022 (a)	990,000	997,425
Freeport-McMoRan Copper & Gold, Inc., 3.55%, 3/1/2022	220,000	216,453
GEO Specialty Chemicals, Inc.:		
7.5%, 3/31/2015 (PIK)	209,283	193,566
10.0%, 3/31/2015	206,080	203,051
Graphic Packaging International, Inc., 9.5%, 6/15/2017	30,000	33,000
Kaiser Aluminum Corp., 144A, 8.25%, 6/1/2020	40,000	40,800
Kraton Polymers LLC, 6.75%, 3/1/2019	10,000	10,425
Molycorp, Inc., 144A, 10.0%, 6/1/2020	95,000	94,050
Novelis, Inc., 8.75%, 12/15/2020	855,000	921,262
Owens-Brockway Glass Container, Inc., 7.375%, 5/15/2016	10,000	11,150

		Principal Amount ($)(c)	Value ($)
Sealed Air Corp.:			
144A, 8.125%, 9/15/2019		10,000	11,150
144A, 8.375%, 9/15/2021		10,000	11,300
Southern Copper Corp., 6.75%, 4/16/2040		250,000	264,740
Teck Resources Ltd., 3.0%, 3/1/2019		110,000	109,275
Volcan Cia Minera SAA, 144A, 5.375%, 2/2/2022		250,000	260,000
Wolverine Tube, Inc., 6.0%, 6/28/2014		8,253	7,746
			4,893,276
Telecommunication Services 2.8%			
AT&T, Inc., 3.875%, 8/15/2021		64,000	69,713
Cincinnati Bell, Inc.:			
8.25%, 10/15/2017		100,000	104,000
8.375%, 10/15/2020		595,000	606,900
8.75%, 3/15/2018		310,000	298,375
Cricket Communications, Inc.:			
7.75%, 10/15/2020		665,000	635,075
10.0%, 7/15/2015		50,000	51,500
Digicel Group Ltd., 144A, 10.5%, 4/15/2018		200,000	209,000
Digicel Ltd., 144A, 8.25%, 9/1/2017		650,000	661,375
ERC Ireland Preferred Equity Ltd., 144A, 7.69%**, 2/15/2017 (PIK)*	EUR	120,439	46
Frontier Communications Corp.:			
6.625%, 3/15/2015		250,000	265,000
8.5%, 4/15/2020 (a)		675,000	715,500
Intelsat Jackson Holdings SA:			
144A, 7.25%, 10/15/2020		690,000	724,500
7.5%, 4/1/2021		125,000	132,187
Intelsat Luxembourg SA, 11.25%, 2/4/2017		492,000	506,760
MetroPCS Wireless, Inc., 6.625%, 11/15/2020		250,000	246,250
Nextel Communications, Inc., Series D, 7.375%, 8/1/2015		260,000	260,325
Sprint Nextel Corp.:			
6.0%, 12/1/2016		565,000	540,987
8.375%, 8/15/2017		120,000	123,000
144A, 9.125%, 3/1/2017		15,000	15,750
Telesat Canada, 144A, 6.0%, 5/15/2017		15,000	15,263
Windstream Corp.:			
7.0%, 3/15/2019		25,000	25,625
7.75%, 10/15/2020		885,000	938,100
7.875%, 11/1/2017		130,000	141,700
Zayo Group LLC, 144A, 8.125%, 1/1/2020		25,000	26,125
			7,313,056
Utilities 0.7%			
AES Corp.:			
8.0%, 10/15/2017		35,000	39,812
8.0%, 6/1/2020		30,000	34,425
Calpine Corp., 144A, 7.5%, 2/15/2021		735,000	793,800
Centrais Eletricas Brasileiras SA, 144A, 5.75%, 10/27/2021		250,000	273,250

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

	Principal Amount ($)(c)	Value ($)
DTE Energy Co., 7.625%, 5/15/2014	81,000	90,363
FirstEnergy Solutions Corp., 6.8%, 8/15/2039	234,000	245,735
Oncor Electric Delivery Co., LLC, 144A, 4.1%, 6/1/2022	120,000	122,346
Perusahaan Listrik Negara PT, 144A, 5.5%, 11/22/2021	250,000	261,250
		1,860,981
Total Corporate Bonds (Cost $50,038,613)		**50,831,982**

Asset-Backed 0.2%

Credit Card Receivables

	Principal Amount ($)(c)	Value ($)
Citibank Omni Master Trust, "A14", Series 2009-A14A, 144A, 2.992%**, 8/15/2018 (Cost $578,918)	550,000	**577,567**

Mortgage-Backed Securities Pass-Throughs 1.3%

	Principal Amount ($)(c)	Value ($)
Federal Home Loan Mortgage Corp., 6.0%, 3/1/2038	23,078	25,237
Federal National Mortgage Association:		
4.5%, 9/1/2035	41,768	44,779
6.0%, 1/1/2024	51,113	57,492
6.5%, with various maturities from 5/1/2017 until 1/1/2038	28,199	31,030
8.0%, 9/1/2015	28,089	29,821
Government National Mortgage Association:		
3.0%, 1/1/2042 (d)	1,000,000	1,034,844
4.0%, 7/1/2040 (d)	2,000,000	2,184,531
Total Mortgage-Backed Securities Pass-Throughs (Cost $3,392,158)		**3,407,734**

Commercial Mortgage-Backed Securities 0.2%

	Principal Amount ($)(c)	Value ($)
Bear Stearns Commercial Mortgage Securities, Inc., "A4", Series 2007-PW16, 5.906%**, 6/11/2040	66,000	75,464
JPMorgan Chase Commercial Mortgage Securities Corp., "A4", Series 2007-C1, 5.716%, 2/15/2051	225,000	254,629
LB-UBS Commercial Mortgage Trust, "A4", Series 2007-C6, 5.858%, 7/15/2040	260,000	296,937
Total Commercial Mortgage-Backed Securities (Cost $591,258)		**627,030**

Collateralized Mortgage Obligations 1.9%

	Principal Amount ($)(c)	Value ($)
Federal Home Loan Mortgage Corp.:		
"HI", Series 3979, Interest Only, 3.0%, 12/15/2026	1,140,424	112,992
"NI", Series 4020, Interest Only, 3.0%, 3/15/2027	1,191,495	136,967
"QB", Series 3736, 4.0%, 5/15/2037	1,000,000	1,088,629
"P", Series 3808, 4.0%, 11/15/2038	1,000,000	1,096,974
"LI", Series 3720, Interest Only, 4.5%, 9/15/2025	2,330,785	324,106
"KI", Series 3843, Interest Only, 4.5%, 7/15/2036	827,229	58,318
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038	922,907	130,187
"H", Series 2278, 6.5%, 1/15/2031	151	168
Federal National Mortgage Association, "I", Series 2003-84, Interest Only, 6.0%, 9/25/2033	458,175	91,603
Government National Mortgage Association:		
"QI", Series 2011-112, Interest Only, 4.0%, 5/16/2026	1,564,215	174,899
"NI", Series 2011-80, Interest Only, 4.5%, 5/16/2038	1,924,531	235,504
"BI", Series 2010-30, Interest Only, 4.5%, 7/20/2039	202,621	31,562
"IQ", Series 2011-18, Interest Only, 5.5%, 1/16/2039	791,895	71,374
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	1,519,489	225,323
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	1,487,202	218,220
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	933,199	148,714
Residential Funding Mortgage Securities I, Inc., "M1", Series 2003-S17, 5.5%, 9/25/2033	865,246	831,048
Total Collateralized Mortgage Obligations (Cost $4,915,300)		**4,976,588**

Government & Agency Obligations 10.9%

Sovereign Bonds 1.8%

		Principal Amount ($)(c)	Value ($)
Federal Republic of Brazil, 5.625%, 1/7/2041		250,000	306,625
Government of Canada, 0.75%, 5/1/2014	CAD	1,000,000	977,301
Republic of Colombia, 4.375%, 7/12/2021		250,000	280,750
Republic of Croatia, 144A, 6.25%, 4/27/2017		250,000	249,327
Republic of Hungary, 4.75%, 2/3/2015		250,000	240,000
Republic of Latvia, 144A, 5.25%, 2/22/2017		250,000	258,125
Republic of Lithuania, 144A, 6.125%, 3/9/2021		250,000	275,000
Republic of Peru, 5.625%, 11/18/2050		250,000	303,125
Republic of Poland, 5.0%, 3/23/2022		250,000	272,875
Republic of Serbia:			
144A, 6.75%, 11/1/2024		208,333	200,000
REG S, 6.75%, 11/1/2024		208,333	200,000
Republic of South Africa, 4.665%, 1/17/2024		250,000	270,625
Republic of Turkey, 6.0%, 1/14/2041		250,000	263,125

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

	Principal Amount ($)(c)	Value ($)
State of Qatar, 144A, 6.4%, 1/20/2040	100,000	127,250
United Mexican States, 4.75%, 3/8/2044	250,000	269,375
Vnesheconombank, 144A, 6.025%, 7/5/2022 (d)	250,000	249,377
		4,742,880
U.S. Treasury Obligations 9.1%		
U.S. Treasury Bills:		
0.1%***, 9/6/2012	153,000	152,981
0.1%***, 9/6/2012	120,000	119,985
U.S. Treasury Bonds:		
4.75%, 2/15/2037	2,300,000	3,205,984
5.375%, 2/15/2031 (a)	1,000,000	1,457,188
U.S. Treasury Notes:		
0.75%, 6/15/2014	5,000,000	5,041,419
1.0%, 1/15/2014	605,000	611,357
1.0%, 8/31/2016	3,350,000	3,402,605
1.75%, 1/31/2014	3,900,000	3,988,206
2.0%, 11/15/2021	3,800,000	3,939,829
4.5%, 11/15/2015	1,500,000	1,700,157
		23,619,711
Total Government & Agency Obligations (Cost $26,852,095)		**28,362,591**

Loan Participations and Assignments 0.6%

Sovereign Loans

Bank of Moscow, 144A, 6.699%, 3/11/2015	250,000	258,750
Gazprom OAO, 144A, 4.95%, 5/23/2016	250,000	258,873
OAO Novatek, 144A, 5.326%, 2/3/2016	250,000	260,030
Vimpel Communications, 144A, 7.748%, 2/2/2021	250,000	241,435
Vnesheconombank, 144A, 5.375%, 2/13/2017	250,000	258,710
VTB Bank OJSC, 144A, 6.0%, 4/12/2017	250,000	253,750
Total Loan Participations and Assignments (Cost $1,520,510)		**1,531,548**

Municipal Bonds and Notes 0.4%

California, University Revenues, Build America Bonds, 5.946%, 5/15/2045	125,000	155,910
Chicago, IL, Transit Authority, Sales Tax Receipts Revenue, Build America Bonds, Series B, 6.2%, 12/1/2040	185,000	204,353
Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018	500,000	515,350
Louisville & Jefferson County, KY, Metropolitan Sewer District & Drain System, Build America Bonds, 6.25%, 5/15/2043	150,000	192,661
Total Municipal Bonds and Notes (Cost $960,262)		**1,068,274**

	Principal Amount ($)(c)	Value ($)
Preferred Securities 0.1%		
Financials 0.1%		
Farm Credit Bank of Texas, Series 1, 7.561%, 12/15/2013 (e)	218,000	**222,284**
Materials 0.0%		
Hercules, Inc., 6.5%, 6/30/2029	40,000	**32,800**
Total Preferred Securities (Cost $241,575)		**255,084**

	Units	Value ($)
Other Investments 0.0%		
Consumer Discretionary		
AOT Bedding Super Holdings LLC* (f) (Cost $2,000)	2	**1,935**

	Contracts	Value ($)
Call Options Purchased 0.0%		
Options on Exchange-Traded Futures Contracts		
10 Year U.S. Treasury Note Future, Expiration Date 8/24/2012, Strike Price $134.0	15	**10,781**

	Contract Amount	Value ($)
Options on Interest Rate Swap Contracts		
Fixed Rate — 3.583% – Floating — LIBOR, Swap Expiration Date 5/11/2026, Option Expiration Date 5/9/2016	2,300,000	**81,839**
Total Call Options Purchased (Cost $124,535)		**92,620**

	Shares	Value ($)
Put Options Purchased 0.0%		
Options on Exchange-Traded Futures Contracts		
10 Year U.S. Treasury Note Future Expiration Date 8/24/2012, Strike Price $133.0 (Cost $23,493)	25	**21,094**
Securities Lending Collateral 9.2%		
Daily Assets Fund Institutional, 0.24% (g) (h) (Cost $23,888,571)	23,888,571	**23,888,571**
Cash Equivalents 15.0%		
Central Cash Management Fund, 0.14% (g) (Cost $39,063,140)	39,063,140	**39,063,140**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $286,298,208)†	111.1	**289,678,692**
Other Assets and Liabilities, Net	(11.1)	**(28,950,873)**
Net Assets	100.0	**260,727,819**

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

The following table represents bonds that are in default:

Security	Coupon	Maturity Date	Principal Amount ($)		Acquisition Cost ($)	Value ($)
ERC Ireland Preferred Equity Ltd.*	7.69%	2/15/2017	120,439	EUR	165,016	46
Fontainebleau Las Vegas Holdings LLC*	11.0%	6/15/2015	25,000	USD	25,000	16
					190,016	**62**

* Non-income producing security.

** Floating rate securities' yields vary with a designated market index or market rate, such as the coupon-equivalent of the U.S. Treasury Bill rate. These securities are shown at their current rate as of June 30, 2012.

*** Annualized yield at time of purchase; not a coupon rate.

† The cost for federal income tax purposes was $289,384,565. At June 30, 2012, net unrealized appreciation for all securities based on tax cost was $294,127. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $8,965,492 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $8,671,365.

(a) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2012 amounted to $23,793,142, which is 9.1% of net assets.

(b) Securities with the same description are the same corporate entity but trade on different stock exchanges.

(c) Principal amount stated in U.S. dollars unless otherwise noted.

(d) When-issued or delayed delivery security included.

(e) Date shown is call date; not a maturity date for the perpetual preferred securities.

(f) The Fund 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 Fund 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 Fund's decision to sell a restricted security and the point at which the Fund is permitted or able to sell such security, the Fund 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 Fund. The future value of these securities is uncertain and there may be changes in the estimated value of these securities.

Schedule of Restricted Securities	Acquisition Date	Cost ($)	Value ($)	Value as % of Net Assets
AOT Bedding Super Holdings LLC*	June 2010	2,000	1,935	0.0

(g) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(h) Represents collateral held in connection with securities lending. Income earned by the Fund is net of borrower rebates.

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.

ADR: American Depositary Receipt

CVA: Certificaten Van Aandelen

Interest Only: 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 of the pool of underlying mortgages.

LIBOR: London Interbank Offered Rate

PIK: Denotes that all or a portion of the income is paid in-kind in the form of additional principal.

REG S: Securities sold under Regulation S may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933.

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 National Mortgage Association issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

At June 30, 2012, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year Canadian Government Bond	CAD	9/19/2012	10	1,359,886	1,422
10 Year U.S. Treasury Note	USD	9/19/2012	34	4,534,750	4,175
Federal Republic of Germany Euro-Bund	EUR	9/6/2012	20	3,566,177	(8,715)
United Kingdom Long Gilt Bond	GBP	9/26/2012	10	1,865,443	(4,105)
Total net unrealized depreciation					**(7,223)**

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

At June 30, 2012, open written options contracts were as follows:

Options on Exchange-Traded Futures Contracts	Contracts	Expiration Date	Strike Price ($)	Premiums Received ($)	Value ($) (i)
Call Options					
10 Year U.S. Treasury Note	15	8/24/2012	136.0	1,842	(2,813)
Put Options					
10 Year U.S. Treasury Note	50	8/24/2012	131.0	20,984	(14,062)
Total				**22,826**	**(16,875)**

(i) Unrealized appreciation on written options on exchange-traded futures contracts at June 30, 2012 was $5,951.

Options on Interest Rate Swap Contracts	Contract Amount	Swap Effective/ Expiration Date	Option Expiration Date	Premiums Received ($)	Value ($) (j)
Call Options					
Fixed — 4.083% – Floating — LIBOR	2,300,000	5/11/2016 5/11/2026	5/9/2016	78,200	(60,238)
Put Options					
Fixed — 2.07% – Floating — LIBOR	2,300,000	5/10/2013 5/10/2043	5/8/2013	36,800	(59,845)
Total				**115,000**	**(120,083)**

(j) Unrealized depreciation on written options on interest rate swap contracts at June 30, 2012 was $5,083.

As of June 30, 2012, open credit default swap contracts purchased were as follows:

Effective/ Expiration Date	Notional Amount ($)	Fixed Cash Flows Paid	Reference Entity	Value ($)	Upfront Payments (Received) ($)	Unrealized Appreciation ($)
3/20/2012 6/20/2017	5,200,000[1]	1.0%	Markit Dow Jones CDX North America Investment Grade Index	29,725	(23,396)	**53,121**

Counterparty:

[1] Citigroup, Inc.

As of June 30, 2012, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	1,244,282	EUR	1,000,000	7/6/2012	22,547	Bank of America
USD	2,208,713	NZD	2,800,000	7/16/2012	36,627	Bank of America
USD	3,016,140	EUR	2,400,000	7/23/2012	24,658	UBS AG
EUR	2,400,000	USD	3,044,294	7/23/2012	3,496	Bank of America
USD	1,873,371	EUR	1,500,000	7/27/2012	27,188	Bank of America
USD	2,540,383	BRL	5,300,000	7/30/2012	82,297	BNP Paribas
USD	1,206,570	TRY	2,200,000	8/2/2012	1,896	UBS AG
Total unrealized appreciation					**198,709**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
EUR	1,000,000	USD	1,253,825	7/6/2012	(13,004)	UBS AG
NZD	2,800,000	USD	2,164,582	7/16/2012	(80,758)	BNP Paribas
BRL	5,300,000	USD	2,524,411	7/30/2012	(98,269)	Nomura International PLC
EUR	1,500,000	USD	1,898,994	8/2/2012	(1,655)	UBS AG
USD	1,267,985	MXN	17,000,000	8/3/2012	(4,345)	Bank of America
Total unrealized depreciation					**(198,031)**	

Currency Abbreviations

AUD	Australian Dollar	EUR	Euro	NZD	New Zealand Dollar
BRL	Brazilian Real	GBP	British Pound	TRL	Turkish Lira
CAD	Canadian Dollar	MXN	Mexican Peso	USD	United States Dollar

For information on the Fund's policy and additional disclosures regarding options purchased, futures contracts, credit default swap contracts, forward foreign currency exchange contracts and written options contracts, please refer to Note B in the accompanying Notes to Financial Statements.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2012 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks and/or Other Equity Investments (k)				
Consumer Discretionary	$ 3,262,070	$ 4,480,577	$ 15	$ 7,742,662
Consumer Staples	11,919,911	12,316,534	—	24,236,445
Energy	16,335,062	3,689,226	—	20,024,288
Financials	8,533,385	4,570,823	—	13,104,208
Health Care	—	12,864,646	—	12,864,646
Industrials	2,207,302	8,942,959	0	11,150,261
Information Technology	10,706,623	1,765,302	—	12,471,925
Materials	7,838,580	2,177,234	10,322	10,026,136
Telecommunication Services	6,848,178	7,323,288	—	14,171,466
Utilities	5,712,359	3,468,538	—	9,180,897
Fixed Income Investments (k)				
Corporate Bonds	—	50,427,619	404,363	50,831,982
Asset Backed	—	577,567	—	577,567
Mortgage-Backed Securities Pass-Throughs	—	3,407,734	—	3,407,734
Commercial Mortgage-Backed Securities	—	627,030	—	627,030
Collateralized Mortgage Obligations	—	4,976,588	—	4,976,588
Government & Agency Obligations	—	28,362,591	—	28,362,591
Loan Participations and Assignments	—	1,531,548	—	1,531,548
Municipal Bonds and Notes	—	1,068,274	—	1,068,274
Preferred Securities	—	255,084	—	255,084
Other Investments	—	—	1,935	1,935
Short-Term Investments (k)	62,951,711	—	—	62,951,711
Derivatives (l)	37,472	333,669	—	371,141
Total	**$136,352,653**	**$153,166,831**	**$ 416,635**	**$289,936,119**

Liabilities				
Derivatives (l)	$ (29,695)	$ (318,114)	$ —	$ (347,809)
Total	**$ (29,695)**	**$ (318,114)**	**$ —**	**$ (347,809)**

There have been no transfers between Level 1 and Level 2 fair value measurements during the period ended June 30, 2012.

(k) See Investment Portfolio for additional detailed categorizations.

(l) Derivatives include value of options purchased, unrealized appreciation (depreciation) on open futures contracts, credit default swap contracts, forward foreign currency exchange contracts and written options, at value.

Statement of Assets and Liabilities

as of June 30, 2012 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $223,346,497) — including $23,793,142 of securities loaned	$	226,726,981
Investment in Daily Assets Fund Institutional (cost $23,888,571)*		23,888,571
Investment in Central Cash Management Fund (cost $39,063,140)		39,063,140
Total investments in securities, at value (cost $286,298,208)		289,678,692
Cash		31,305
Foreign currency, at value (cost $165,003)		166,445
Deposit with broker for futures contracts		765
Receivable for investments sold		1,118,711
Receivable for investments sold — when-issued/delayed delivery securities		1,039,625
Receivable for Fund shares sold		56,155
Dividends receivable		311,541
Interest receivable		1,151,034
Unrealized appreciation on swap contracts		53,121
Unrealized appreciation on forward foreign currency exchange contracts		198,709
Foreign taxes recoverable		25,848
Other assets		1,169
Total assets		293,833,120
Liabilities		
Payable upon return of securities loaned		23,888,571
Payable for investments purchased		3,570,827
Payable for investments purchased — when-issued/delayed delivery securities		4,983,115
Payable for Fund shares redeemed		95,232
Payable for variation margin on futures contracts		19,879
Options written, at value (premium received $137,826)		136,958
Unrealized depreciation on forward foreign currency exchange contracts		198,031
Upfront payments received on swap contracts		23,396
Accrued management fee		78,100
Accrued Trustees' fees		793
Other accrued expenses and payables		110,399
Total liabilities		33,105,301
Net assets, at value	**$**	**260,727,819**
Net Assets Consist of		
Undistributed net investment income		3,068,011
Net unrealized appreciation (depreciation) on:		
Investments		3,380,484
Swap contracts		53,121
Futures		(7,223)
Foreign currency		(8,015)
Written options		868
Accumulated net realized gain (loss)		(10,659,018)
Paid-in capital		264,899,591
Net assets, at value	**$**	**260,727,819**
Class A		
Net Asset Value, offering and redemption price per share ($260,727,819 ÷ 11,638,772 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**22.40**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2012 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $146,661)	$	2,396,842
Interest		1,412,944
Income distributions — Central Cash Management Fund		15,061
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		74,203
Total income		3,899,050
Expenses:		
Management fee		491,941
Administration fee		133,583
Services to shareholders		536
Custodian fee		68,282
Professional fees		47,274
Reports to shareholders		24,874
Trustees' fees and expenses		6,860
Other		46,310
Total expenses		819,660
Net investment income		**3,079,390**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		34,040,983
Swap contracts		(11,989)
Futures		703,865
Foreign currency		(1,288,621)
		33,444,238
Change in net unrealized appreciation (depreciation) on:		
Investments		(20,801,774)
Swap contracts		53,121
Futures		(296,509)
Written options		868
Foreign currency		31,165
		(21,013,129)
Net gain (loss)		**12,431,109**
Net increase (decrease) in net assets resulting from operations	**$**	**15,510,499**

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, 2012 (Unaudited)	Year Ended December 31, 2011
Operations:		
Net investment income (loss)	$ 3,079,390	$ 6,031,493
Net realized gain (loss)	33,444,238	8,487,703
Change in net unrealized appreciation (depreciation)	(21,013,129)	(18,126,212)
Net increase (decrease) in net assets resulting from operations	15,510,499	(3,607,016)
Distributions to shareholders from:		
Net investment income:		
Class A	(4,191,340)	(4,612,028)
Total distributions	(4,191,340)	(4,612,028)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,618,583	6,208,413
Shares issued to shareholders in reinvestment of distributions	4,191,340	4,612,028
Payments for shares redeemed	(21,460,683)	(46,814,172)
Net increase (decrease) in net assets from Class A share transactions	(14,650,760)	(35,993,731)
Increase (decrease) in net assets	(3,331,601)	(44,212,775)
Net assets at beginning of period	264,059,420	308,272,195
Net assets at end of period (including undistributed net investment income of $3,068,011 and $4,179,961, respectively)	**$ 260,727,819**	**$ 264,059,420**

Other Information		
Class A		
Shares outstanding at beginning of period	12,288,136	13,930,205
Shares sold	116,302	285,391
Shares issued to shareholders in reinvestment of distributions	186,116	200,698
Shares redeemed	(951,782)	(2,128,158)
Net increase (decrease) in Class A shares	(649,364)	(1,642,069)
Shares outstanding at end of period	11,638,772	12,288,136

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

Financial Highlights

Class A	Six Months Ended 6/30/12 (Unaudited)	Years Ended December 31, 2011	2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$21.49**	**$22.13**	**$20.52**	**$17.35**	**$24.81**	**$24.46**
Income (loss) from investment operations:						
Net investment income[a]	.26	.46	.39	.44	.61	.74
Net realized and unrealized gain (loss)	1.01	(.75)	1.88	3.43	(7.20)	.42
Total from investment operations	1.27	(.29)	2.27	3.87	(6.59)	1.16
Less distributions from:						
Net investment income	(.36)	(.35)	(.66)	(.70)	(.87)	(.81)
Net asset value, end of period	**$22.40**	**$21.49**	**$22.13**	**$20.52**	**$17.35**	**$24.81**
Total Return (%)	5.89**	(1.42)	11.22	23.43	(27.33)[b]	4.84[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	261	264	308	319	307	528
Ratio of expenses before expense reductions (%)	.61*	.58	.65	.60	.64	.52
Ratio of expenses after expense reductions (%)	.61*	.58	.65	.60	.62	.51
Ratio of net investment income (%)	2.31*	2.09	1.89	2.40	2.83	3.00
Portfolio turnover rate (%)	111**	109	203	207	263	199

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

* Annualized

** Not annualized

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

DWS Global Income Builder VIP (formerly DWS Balanced VIP) (the "Fund") is a diversified series of DWS Variable Series II (the "Trust"), which is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company organized as a Massachusetts business trust.

The Fund'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 Fund in the preparation of its financial statements.

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.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Equity securities and exchange-traded funds ("ETFs") are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. Securities or ETFs 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. For certain 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, a fair valuation model may be used. This fair valuation model takes into account comparisons to the valuation of American Depository Receipts (ADRs), exchange-traded funds, futures contracts and certain indices and these securities are categorized as Level 2.

Debt securities and Loan Participations and Assignments are valued at prices supplied by independent pricing services approved by the Fund's Board. 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 one or more broker-dealers. 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. These securities are generally categorized as Level 2.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Futures contracts are generally valued at the settlement prices established each day on the exchange on which they are traded and are categorized as Level 1.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and are categorized as Level 2.

Swap contracts are valued daily based upon prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer. Swap contracts are generally categorized as Level 2.

Exchange-traded options are 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 or asked price are available. Exchange-traded options are categorized as Level 1. Over-the-counter written or purchased options are valued at the price provided by the broker-dealer with which the option was traded and are generally categorized as Level 2.

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 Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. 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 acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. 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 gain/appreciation and loss/depreciation on investments.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the issuer of securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Loan Participations and Assignments. Senior loans are portions of loans originated by banks and sold in pieces to investors. These U.S. dollar-denominated fixed and floating rate loans ("Loans") in which the Fund invests are arranged between the borrower and one or more financial institutions ("Lenders"). These Loans may take the form of Senior Loans, which are corporate obligations often issued in connection with recapitalizations, acquisitions, leveraged buy-outs and refinancings, and Sovereign Loans, which are debt instruments between a foreign sovereign entity and one or more financial institutions. The Fund 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 Fund having a contractual relationship only with the Lender, not with the borrower. The Fund 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 Fund generally has no right to enforce compliance by the borrower with the terms of the loan agreement relating to the Loan, or any rights of set-off against the borrower, and the Fund will not benefit directly from any collateral supporting the Loan in which it has purchased the Participation. As a result, the Fund assumes the credit risk of both the borrower and the Lender that is selling the Participation. Assignments typically result in the Fund having a direct contractual relationship with the borrower, and the Fund may enforce compliance by the borrower with the terms of the loan agreement. Senior loans held by the Fund are generally in the form of Assignments, but the Fund may also invest in Participations. All Loan Participations and Assignments involve interest rate risk, liquidity risk and credit risk, including the potential default or insolvency of the borrower.

When-Issued/Delayed Delivery Securities. The Fund may purchase or sell securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the Fund enters into a commitment to purchase or sell a security, the transaction is recorded and the value of the transaction 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. At the time the Fund enters into a purchase 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 transactions 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. The Fund's 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 income to its shareholders.

Additionally, based on the Fund's understanding of the tax rules and rates related to income, gains and transactions for the foreign jurisdictions in which it invests, the Fund will provide for foreign taxes and, where appropriate, deferred foreign taxes.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $40,835,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2017, the expiration date, whichever occurs first.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. Distributions of net investment income of the Fund, if any, are made annually. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the Fund if not distributed and, therefore, will be distributed to shareholders at least annually. The Fund may also make additional distributions for tax purposes if necessary.

The timing and characterization of certain income and capital gain 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 foreign denominated investments, forward currency contracts, futures contracts 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 Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

The tax character of current year distributions will be determined at the end of the current fiscal year.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

Contingencies. In the normal course of business, the Fund may enter into contracts with service providers that contain general 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 been made. However, based on experience, the Fund expects 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 Fund is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes, with the exception of securities in default of principal.

B. Derivative Instruments

Credit Default Swap Contracts. A credit default swap is a contract between a buyer and a seller of protection against pre-defined credit events for the reference entity. For the six months ended June 30, 2012, the Fund bought credit default swap contracts to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer, or to economically hedge the risk of default on Fund securities. As a seller in the credit default swap contract, the Fund is required to pay the par (or other agreed-upon) value of the referenced entity to the counterparty with the occurrence of a credit event by a third party, such as a U.S. or foreign corporate issuer, on the reference entity, which would likely result in a loss to the Fund. In return, the Fund receives from the counterparty a periodic stream of payments over the term of the contract provided that no credit event has occurred. If no credit event occurs, the Fund keeps the stream of payments with no payment obligations. The Fund may also buy credit default swap contracts in order to hedge against the risk of a credit event on debt securities, in which case the Fund functions as the counterparty referenced above. This involves the risk that the contract may expire worthless. It also involves counterparty risk that the seller may fail to satisfy its payment obligations to the Fund with the occurrence of a credit event. When the Fund 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 reference entities for all outstanding credit default swap contracts sold by the Fund.

The value of the credit default swap is adjusted daily and the change in value, if any, is recorded daily as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Under the terms of the credit default swap contracts, the Fund receives or makes quarterly payments based on a specified interest rate on a fixed notional amount. These payments are recorded as a realized gain or loss in 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 in the Statement of Operations.

A summary of the open credit default swap contracts as of June 30, 2012 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the investment in credit default swap contracts purchased had a total notional value generally indicative of a range from $0 to $5,200,000.

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). For the six months ended June 30, 2012, the Fund used futures contracts to gain exposure to different parts of the yield curve while managing overall duration, and to gain exposure to a particular asset class or to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the stock market. In addition, prior to May 1, 2012, the Fund sought to enhance returns by employing a global tactical asset allocation overlay strategy by entering into futures contracts on fixed-income securities, including on financial indices. For the six months ended June 30, 2012, as part of this strategy, the Fund used futures contracts to attempt to take advantage of inefficiencies within the global bond markets.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange-traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts disclosed in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of June 30, 2012 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $11,326,000 to $44,167,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from $0 to approximately $50,425,000.

Options. An option contract is a contract in which the writer (seller) of the option grants the buyer of the option, upon payment of a premium, 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 and interest rate options, will require cash settlement by the Fund if exercised. For the six months ended June 30, 2012, the Fund entered into options on interest rate futures and on interest rate swaps in order to hedge against potential adverse interest rate movements of portfolio assets.

If the Fund writes a covered call option, the Fund 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 Fund 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. For exchange traded contracts, the counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default. The Fund'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 Fund'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.

A summary of the open purchased option contracts as of June 30, 2012 is included in the Fund's Investment Portfolio. A summary of open written option contracts is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the investment in written option contracts had a total value generally indicative of a range from $0 to approximately $137,000, and purchased option contracts had a total value generally indicative of a range from $0 to approximately $114,000.

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. For the six months ended June 30, 2012, the Fund entered into forward currency contracts in order to hedge its exposure to changes in foreign currency exchange rates on its foreign currency denominated portfolio holdings, to facilitate transactions in foreign currency denominated securities and to enhance total returns. Prior to May 1, 2012, the Fund also entered into forward currency contracts as part of its global tactical asset allocation overlay strategy.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and unrealized gain (loss) is recorded daily. On the settlement date of the forward currency contract, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it was closed. Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. The maximum counterparty credit risk to the Fund is measured by the unrealized gain on appreciated contracts. Additionally, when utilizing forward currency contracts to hedge, the Fund gives up the opportunity to profit from favorable exchange rate movements during the term of the contract.

A summary of the open forward currency contracts as of June 30, 2012 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $10,886,000 to $47,248,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $13,357,000 to $47,692,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2012 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Purchased Options**	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a) (b)	$ 113,714	$ —	$ —	$ 5,597	$ 119,311
Credit Contracts (a)	—	—	53,121	—	53,121
Foreign Exchange Contracts (c)	—	198,709	—	—	198,709
	$ 113,714	**$ 198,709**	**$ 53,121**	**$ 5,597**	**$ 371,141**

Each of the above derivatives is located in the following Statement of Assets and Liabilities accounts:

(a) Investment in securities, at value (includes purchased options) and unrealized appreciation on swap contracts

(b) Includes cumulative appreciation of futures contracts as disclosed in the Investment Portfolio. Unsettled variation margin is disclosed separately within the Statement of Assets and Liabilities.

(c) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivatives	**Written Options**	**Forward Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a) (b)	$ (136,958)	$ —	$ (12,820)	$ (149,778)
Foreign Exchange Contracts (c)	—	(198,031)	—	(198,031)
	$ (136,958)	**$ (198,031)**	**$ (12,820)**	**$ (347,809)**

Each of the above derivatives is located in the following Statement of Assets and Liabilities accounts:

(a) Options written, at value

(b) Includes cumulative depreciation of futures contracts as disclosed in the Investment Portfolio. Unsettled variation margin is disclosed separately within the Statement of Assets and Liabilities.

(c) Unrealized depreciation on forward foreign currency exchange contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2012 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	Purchased Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Equity Contracts (a)	$ —	$ —	$ —	$ 140,809	$ 140,809
Interest Rate Contracts (a)	12,387	—	—	563,056	575,443
Credit Contracts (a)	—	—	(11,989)	—	(11,989)
Foreign Exchange Contracts (b)	—	(1,149,150)	—	—	(1,149,150)
	$ 12,387	**$ (1,149,150)**	**$ (11,989)**	**$ 703,865**	**$ (444,887)**

Each of the above derivatives is located in the following Statement of Operations accounts:

(a) Net realized gain (loss) from investments (includes purchased options), swap contracts and futures, respectively

(b) Net realized gain (loss) from foreign currency (Statement of Operations includes both forward currency contracts and foreign currency transactions)

Change in Net Unrealized Appreciation (Depreciation)	Purchased Options	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Equity Contracts (a)	$ —	$ —	$ —	$ —	$ (23,250)	$ (23,250)
Interest Rate Contracts (a)	(34,314)	868	—	—	(273,259)	(306,705)
Credit Contracts (a)	—	—	—	53,121	—	53,121
Foreign Exchange Contracts (b)	—	—	38,633	—	—	38,633
	$ (34,314)	**$ 868**	**$ 38,633**	**$ 53,121**	**$ (296,509)**	**$ (238,201)**

Each of the above derivatives is located in the following Statement of Operations accounts:

(a) Change in net unrealized appreciation (depreciation) on investments (includes purchased options), written options, swap contracts and futures, respectively

(b) Change in net unrealized appreciation (depreciation) on foreign currency (Statement of Operations includes both forward currency contracts and foreign currency transactions)

C. Purchases and Sales of Securities

During the six months ended June 30, 2012, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $256,501,801 and $306,486,572, respectively. Purchases and sales of U.S. Treasury obligations aggregated $13,564,169 and $8,574,007, respectively.

For the six months ended June 30, 2012, transactions for written options on interest rate swap contracts and futures contracts were as follows:

	Contracts/ Contract Amount	Premium
Outstanding, beginning of period	—	$ —
Options written	4,600,065	137,826
Options closed	—	—
Outstanding, end of period	**4,600,065**	**$ 137,826**

D. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund 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 Fund or delegates such responsibility to the Fund's subadvisor. In addition to portfolio management services, the Advisor provides certain administrative services in accordance with the Amended and Restated Management Agreement.

Prior to May 1, 2012, pursuant to an investment subadvisory agreement with the Advisor, QS Investors, LLC ("QS Investors") acted as an investment subadvisor to the Fund. QS Investors rendered strategic asset allocation services and managed the portion of assets allocated to the Fund's global tactical asset allocation overlay strategy. QS Investors was paid by the Advisor for the services QS Investors provided to the Fund. The Fund's board approved the termination of QS Investors as the Fund's subadvisor and effective May 1, 2012, the Advisor assumed all day-to-day advisory responsibilities for the Fund that were previously delegated to QS Investors (see Note G).

Under the Investment Management Agreement, the Fund pays a monthly management fee based on the Fund's average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

First $250 million	.370%
Next $750 million	.345%
Over $1 billion	.310%

Accordingly, for the six months ended June 30, 2012, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate of 0.37% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the six months ended June 30, 2012, the Administration Fee was $133,583, of which $21,153 is unpaid.

Service Provider Fees. DWS Investments Service Company ("DISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2012, the amounts charged to the Fund by DISC aggregated $200, of which $64 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2012, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $10,432, of which $2,200 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the six months ended June 30, 2012, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $8,205.

E. Ownership of the Fund

At June 30, 2012, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding shares of the Fund, each owning 45%, 21% and 15%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $375 million revolving credit facility provided by a syndication of banks. The Fund may borrow 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 on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at June 30, 2012.

G. Changes to Investment Strategies, Policies and Fund Name

Effective May 1, 2012, the Fund's investment objective changed from seeking the highest total return, a combination of income and capital appreciation, consistent with reasonable risk, to seeking to maximize income while maintaining prospects for capital appreciation. In connection with the implementation of the new objective, the Fund's name changed to DWS Global Income Builder VIP. For more information, please see the Fund's current prospectus.

Information About Your Fund's Expenses (Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees and other Fund expenses. Examples of transaction costs include contract charges, 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (January 1, 2012 to June 30, 2012).

The tables illustrate your Fund's expenses in two ways:

- **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund'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% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund'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. 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, 2012

Actual Fund Return	Class A
Beginning Account Value 1/1/12	$1,000.00
Ending Account Value 6/30/12	$1,058.90
Expenses Paid per $1,000*	$ 3.12

Hypothetical 5% Fund Return	Class A
Beginning Account Value 1/1/12	$1,000.00
Ending Account Value 6/30/12	$1,021.83
Expenses Paid per $1,000*	$ 3.07

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 182 (the number of days in the most recent six-month period), then divided by 366.

Annualized Expense Ratio	Class A
DWS Variable Series II — DWS Global Income Builder VIP	.61%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

Proxy Voting

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 are available on our Web site — www.dws-investments.com (click on "proxy voting" at the bottom of the page) — 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) 728-3337.

Summary of Management Fee Evaluation by Independent Fee Consultant

September 26, 2011

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds (formerly the DWS Scudder Funds). My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2011, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007, 2008, 2009 and 2010.

Qualifications

For more than 35 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past ten years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds and have served in various leadership and financial oversight capacities with non-profit organizations.

Evaluation of Fees for each DWS Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 109 mutual fund portfolios in the DWS Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

- The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.
- The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

DeAM's Fees for Similar Services to Others

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Fund. These similar products included the other DWS Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

Costs and Profit Margins

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

Economies of Scale

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Fund compares with this industry observation, I reviewed:

The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.

Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.

How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

Quality of Service — Performance

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

Complex-Level Considerations

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

I reviewed DeAM's profitability analysis for all DWS Funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.

I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.

I considered how aggregated DWS Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.

I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

Findings

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Funds are reasonable.

Thomas H. Mack

Thomas H. Mack
President, Thomas H. Mack & Co., Inc.

Notes

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Chicago, IL 60606
(800) 621-1148

VS2GIB-3 (R-028382-1 8/12)

DWS INVESTMENTS
Deutsche Bank Group

JUNE 30, 2012

SEMIANNUAL REPORT

DWS VARIABLE SERIES II

DWS Global Thematic VIP

DWS INVESTMENTS
Deutsche Bank Group

Contents

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus or summary prospectus, if available, call (800) 728-3337 or your financial representative. We advise you to consider the Fund's objectives, risks, charges and expenses carefully before investing. The summary prospectus and prospectus contain this and other important information about the Fund. Please read the prospectus carefully before you invest.

Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. The Fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

DWS Investments is part of Deutsche Bank's Asset Management division and, within the U.S., represents the retail asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.

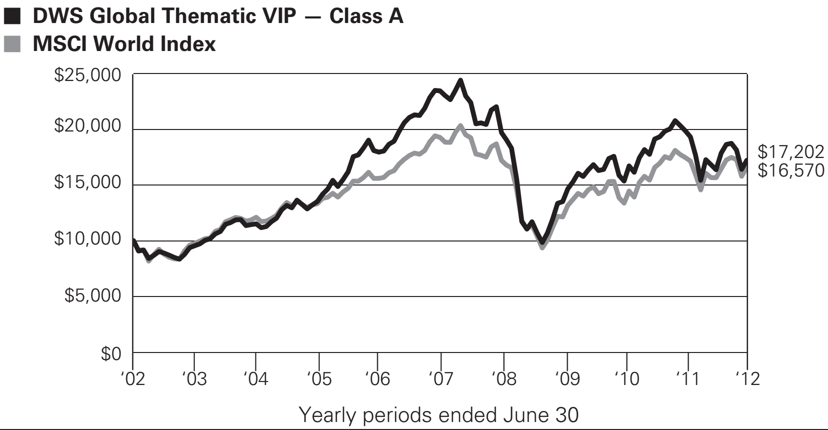
Performance Summary

June 30, 2012 (Unaudited)

Fund 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 contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2012 are 1.37% and 1.72% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment in DWS Global Thematic VIP



The Morgan Stanley Capital International (MSCI) World Index is an unmanaged, capitalization-weighted measure of global stock markets including the U.S., Canada, Europe, Australia and the Far East. The index is calculated using closing local market prices and translates into U.S. dollars using the London close foreign exchange rates.

Index returns do not reflect any fees or expenses and it is not possible to invest directly into an index.

Comparative Results

DWS Global Thematic VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,512	$8,668	$12,732	$7,340	$17,202
	Average annual total return	5.12%	–13.32%	8.38%	–6.00%	5.57%
MSCI World Index	Growth of $10,000	$10,591	$9,502	$13,666	$8,607	$16,570
	Average annual total return	5.91%	–4.98%	10.97%	–2.96%	5.18%

DWS Global Thematic VIP		6-Month‡	1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$10,487	$8,641	$12,592	$7,208	$16,833
	Average annual total return	4.87%	–13.59%	7.98%	–6.34%	5.35%
MSCI World Index	Growth of $10,000	$10,591	$9,502	$13,666	$8,607	$16,570
	Average annual total return	5.91%	–4.98%	10.97%	–2.96%	5.18%

The growth of $10,000 is cumulative.

‡ Total returns shown for periods less than one year are not annualized.

* The Fund commenced offering Class B shares on July 1, 2002. The performance shown for the index is for the time period of June 30, 2002 through June 30, 2012, which is based on the performance period of the life of the class.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/12**	**12/31/11**
Common Stocks	95%	98%
Cash Equivalents	3%	—
Preferred Stocks	2%	2%
Participatory Notes	0%	0%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/12**	**12/31/11**
Materials	17%	9%
Financials	16%	16%
Information Technology	14%	16%
Health Care	12%	15%
Industrials	10%	10%
Consumer Staples	10%	8%
Energy	8%	13%
Consumer Discretionary	6%	8%
Telecommunication Services	5%	3%
Utilities	2%	2%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/12**	**12/31/11**
United States	37%	42%
Continental Europe	28%	28%
Asia (excluding Japan)	10%	11%
Canada	7%	1%
Latin America	6%	6%
Africa	4%	2%
Japan	3%	6%
United Kingdom	2%	1%
Middle East	2%	2%
Bermuda	1%	1%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 5.

Following the Fund'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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management

Oliver Kratz, PhD

Portfolio Manager, Global Thematic Partners, LLC, Subadvisor to the Fund

Investment Portfolio

June 30, 2012 (Unaudited)

	Shares	Value ($)
Common Stocks 95.9%		
Austria 0.6%		
Erste Group Bank AG* (Cost $272,431)	15,687	**298,231**
Bahrain 0.2%		
Aluminium Bahrain (GDR) 144A (Cost $264,341)	21,937	**131,622**
Belgium 0.5%		
Belgacom SA (Cost $287,264)	8,971	**254,882**
Bermuda 0.8%		
Lazard Ltd. "A" (Cost $436,852)	15,393	**400,064**
Brazil 4.3%		
All America Latina Logistica	52,867	223,207
Braskem SA (ADR) (a)	25,801	343,411
Diagnosticos da America SA	28,031	184,361
Gol Linhas Aereas Inteligentes SA (ADR)* (a)	57,956	255,586
Itau Unibanco Holding SA (ADR) (Preferred) (a)	45,154	628,544
SLC Agricola SA	63,318	630,185
(Cost $2,878,421)		**2,265,294**
Canada 6.3%		
Barrick Gold Corp.	13,028	489,462
Detour Gold Corp.*	6,562	132,194
Goldcorp, Inc.	8,426	316,649
Kinross Gold Corp.	52,062	424,305
Potash Corp. of Saskatchewan, Inc.	28,643	1,251,413
Talisman Energy, Inc.	17,861	204,732
TransAlta Corp. (a)	31,700	537,103
(Cost $3,872,537)		**3,355,858**
China 2.9%		
China Life Insurance Co., Ltd. "H"	235,804	617,950
China Life Insurance Co., Ltd. (ADR)	1,207	47,664
Home Inns & Hotels Management, Inc. (ADR)* (a)	11,207	253,951
Li Ning Co., Ltd.	137,785	77,609
Mindray Medical International Ltd. (ADR)	13,145	398,162
Yanzhou Coal Mining Co., Ltd. "H"*	106,800	163,913
(Cost $1,997,642)		**1,559,249**
Denmark 0.7%		
AP Moller-Maersk AS "B"	38	250,073
Vestas Wind Systems AS* (a)	21,995	121,633
(Cost $709,805)		**371,706**
Egypt 0.5%		
Orascom Telecom Holding SAE (GDR) REG S* (Cost $177,339)	97,029	**242,803**
France 1.5%		
LVMH Moet Hennessy Louis Vuitton SA	3,139	478,441
Renault SA	8,476	339,853
(Cost $825,960)		**818,294**

	Shares	Value ($)
Germany 8.0%		
Adidas AG	4,755	341,042
Axel Springer AG	13,332	573,285
Deutsche Lufthansa AG (Registered)	36,885	426,952
Deutsche Post AG (Registered)	61,926	1,096,778
Fraport AG	8,964	482,635
Infineon Technologies AG	111,707	757,424
Metro AG	17,136	499,867
TAG Immobilien AG	4,797	45,077
(Cost $4,407,693)		**4,223,060**
India 2.8%		
ICICI Bank Ltd. (ADR) (a) (Cost $1,500,706)	46,648	**1,511,862**
Indonesia 0.2%		
PT Semen Gresik (Persero) Tbk (Cost $77,178)	99,766	**120,492**
Israel 1.2%		
Teva Pharmaceutical Industries Ltd. (ADR) (Cost $773,826)	16,272	**641,768**
Japan 3.0%		
FANUC Corp.	2,700	443,602
Hitachi Ltd.	49,000	301,356
INPEX Corp.	151	846,555
(Cost $1,275,475)		**1,591,513**
Korea 2.1%		
POSCO (ADR)	1,992	160,237
Samsung Electronics Co., Ltd.	898	952,080
(Cost $848,924)		**1,112,317**
Malaysia 0.5%		
CIMB Group Holdings Bhd. (Cost $260,003)	108,300	**259,176**
Mexico 0.9%		
Wal-Mart de Mexico SAB de CV "V" (Cost $562,578)	186,111	**497,935**
Netherlands 6.7%		
Koninklijke (Royal) KPN NV	79,620	762,394
LyondellBasell Industries NV "A" (b)	3,932	158,342
QIAGEN NV*	31,281	522,342
Unilever NV (CVA) (a)	56,706	1,897,973
VimpelCom Ltd. (ADR)	26,927	218,378
(Cost $3,569,043)		**3,559,429**
Panama 0.6%		
Copa Holdings SA "A" (Cost $128,368)	3,847	**317,301**
Russia 2.0%		
Gazprom OAO (ADR)*	31,362	296,876
Sberbank of Russia (ADR)*	70,708	769,122
(Cost $1,188,045)		**1,065,998**
South Africa 4.0%		
MTN Group Ltd.	59,796	1,033,619
Murray & Roberts Holdings Ltd.*	44,049	133,171
Shoprite Holdings Ltd.	15,496	286,320

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

	Shares	Value ($)
Standard Bank Group Ltd.	34,914	473,651
Tiger Brands Ltd.	5,866	176,203
(Cost $2,071,331)		**2,102,964**
Sweden 2.5%		
Telefonaktiebolaget LM Ericsson "B" (Cost $1,434,365)	143,879	**1,312,884**
Switzerland 3.3%		
Julius Baer Group Ltd.*	23,848	863,448
Roche Holding AG (Genusschein)	4,995	862,274
(Cost $1,644,333)		**1,725,722**
Thailand 1.3%		
Bangkok Bank PCL (Foreign Registered)	25,500	166,815
Kasikornbank PCL (Foreign Registered)	45,000	235,065
Seamico Securities PCL (Foreign Registered)	1,748,260	77,615
Siam Cement Public Co., Ltd.	18,649	186,101
(Cost $659,741)		**665,596**
United Kingdom 2.2%		
AstraZeneca PLC	3,509	156,849
Rio Tinto PLC	13,118	626,507
Standard Chartered PLC	11,528	251,320
Tesco PLC	32,344	157,219
(Cost $1,262,393)		**1,191,895**
United States 36.3%		
Abbott Laboratories (a)	8,870	571,849
Adobe Systems, Inc.* (a)	17,125	554,336
Advanced Micro Devices, Inc.* (a)	50,876	291,520
AGCO Corp.*	16,526	755,734
AllianceBernstein Holding LP	17,656	224,055
Ashland, Inc.	2,237	155,047
Bank of America Corp.	122,762	1,004,193
Bunge Ltd. (a)	4,212	264,261
Calpine Corp.*	35,572	587,294
Chevron Corp.	6,014	634,477
Cisco Systems, Inc.	20,073	344,653
CSX Corp. (a)	30,135	673,819
Dow Chemical Co. (a)	27,790	875,385
Energy Transfer Equity LP	7,129	292,432
Energy Transfer Partners LP (a)	10,168	449,324
Frontier Communications Corp. (a)	37,471	143,514
Global Payments, Inc.	6,122	264,654
iRobot Corp.* (a)	6,063	134,295
JPMorgan Chase & Co.	3,203	114,443
Laboratory Corp. of America Holdings* (a)	14,092	1,305,060
Life Technologies Corp.* (a)	19,920	896,201
Monsanto Co.	11,041	913,974
NCR Corp.*	41,111	934,453
NetApp, Inc.* (a)	11,293	359,343
New York Times Co. "A"* (a)	36,828	287,258
Newmont Mining Corp.	15,617	757,581
Oracle Corp.	13,392	397,742
PerkinElmer, Inc. (a)	8,249	212,824
Quest Diagnostics, Inc.	6,405	383,660
Quest Software, Inc.*	6,725	187,291
Ralcorp Holdings, Inc.*	7,731	515,967
Rock-Tenn Co. "A"	5,048	275,368
Safeway, Inc.	9,647	175,093
Schlumberger Ltd. (a)	7,455	483,904
Symantec Corp.*	30,899	451,434
The Mosaic Co.	30,340	1,661,418
Williams Companies, Inc.	24,195	697,300
(Cost $17,545,040)		**19,231,156**
Total Common Stocks (Cost $50,931,634)		**50,829,071**

Preferred Stock 1.7%

Germany

	Shares	Value ($)
Volkswagen AG (Cost $892,098)	5,638	**893,891**

Participatory Notes 0.2%

Nigeria

	Shares	Value ($)
Bank of Nigeria (issuer HSBC Bank PLC), Expiration Date 11/5/2013	1,383,174	92,807
Guaranty Trust Bank PLC (issuer HSBC Bank PLC), Expiration Date 9/15/2014*	228,273	21,039
Zenith Bank PLC (issuer HSBC Bank PLC), Expiration Date 2/2/2015*	234,847	19,841
Total Participatory Notes (Cost $152,400)		**133,687**

Securities Lending Collateral 17.8%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.24% (c) (d) (Cost $9,410,055)	9,410,055	**9,410,055**

Cash Equivalents 2.5%

	Shares	Value ($)
Central Cash Management Fund, 0.14% (c) (Cost $1,307,154)	1,307,154	**1,307,154**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $62,693,341)†	118.1	**62,573,858**
Other Assets and Liabilities, Net	(18.1)	**(9,586,755)**
Net Assets	100.0	**52,987,103**

* Non-income producing security.

† The cost for federal income tax purposes was $63,333,050. At June 30, 2012, net unrealized depreciation for all securities based on tax cost was $759,192. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $4,114,780 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $4,873,972.

(a) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2012 amounted to $9,503,930, which is 17.9% of net assets.

(b) Listed on the New York Stock Exchange.

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

(c) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(d) Represents collateral held in connection with securities lending. Income earned by the Fund is net of borrower rebates.

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.

ADR: American Depositary Receipt

CVA: Certificaten Van Aandelen

GDR: Global Depositary Receipt

REG S: Securities sold under Regulation S may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2012 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stocks & Preferred Stock (e)				
Austria	$ —	$ 298,231	$ —	$ 298,231
Bahrain	—	131,622	—	131,622
Belgium	—	254,882	—	254,882
Bermuda	400,064	—	—	400,064
Brazil	2,265,294	—	—	2,265,294
Canada	3,355,858	—	—	3,355,858
China	699,777	859,472	—	1,559,249
Denmark	—	371,706	—	371,706
Egypt	—	242,803	—	242,803
France	—	818,294	—	818,294
Germany	—	5,116,951	—	5,116,951
India	1,511,862	—	—	1,511,862
Indonesia	—	120,492	—	120,492
Israel	641,768	—	—	641,768
Japan	—	1,591,513	—	1,591,513
Korea	160,237	952,080	—	1,112,317
Malaysia	—	259,176	—	259,176
Mexico	497,935	—	—	497,935
Netherlands	376,720	3,182,709	—	3,559,429
Panama	317,301	—	—	317,301
Russia	—	1,065,998	—	1,065,998
South Africa	—	2,102,964	—	2,102,964
Sweden	—	1,312,884	—	1,312,884
Switzerland	—	1,725,722	—	1,725,722
Thailand	—	665,596	—	665,596
United Kingdom	—	1,191,895	—	1,191,895
United States	19,231,156	—	—	19,231,156
Participatory Notes (e)	—	133,687	—	133,687
Short-Term Investments (e)	10,717,209	—	—	10,717,209
Total	**$ 40,175,181**	**$ 22,398,677**	**—**	**$ 62,573,858**

There have been no transfers between Level 1 and Level 2 fair value measurements during the period ended June 30, 2012.

(e) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of June 30, 2012 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $51,976,132) — including $9,503,930 of securities loaned	$	51,856,649
Investment in Daily Assets Fund Institutional (cost $9,410,055)*		9,410,055
Investment in Central Cash Management Fund (cost $1,307,154)		1,307,154
Total investments in securities, at value (cost $62,693,341)		62,573,858
Foreign currency, at value (cost $56,734)		56,639
Receivable for investments sold		212,261
Receivable for Fund shares sold		512
Dividends receivable		64,771
Interest receivable		2,215
Foreign taxes recoverable		19,748
Other assets		289
Total assets		62,930,293
Liabilities		
Cash overdraft		14
Payable upon return of securities loaned		9,410,055
Payable for investments purchased		367,923
Payable for Fund shares redeemed		76,418
Accrued management fee		16,531
Accrued Trustees' fees		302
Other accrued expenses and payables		71,947
Total liabilities		9,943,190
Net assets, at value	**$**	**52,987,103**
Net Assets Consist of		
Undistributed net investment income		571,875
Net unrealized appreciation (depreciation) on:		
Investments		(119,483)
Foreign currency		(1,854)
Accumulated net realized gain (loss)		(54,476,150)
Paid-in capital		107,012,715
Net assets, at value	**$**	**52,987,103**
Class A		
Net Asset Value, offering and redemption price per share ($50,282,141 ÷ 6,137,873 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**8.19**
Class B		
Net Asset Value, offering and redemption price per share ($2,704,962 ÷ 329,263 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**8.22**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2012 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $69,956)	$	844,802
Income distributions — Central Cash Management Fund		857
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		45,562
Total income		891,221
Expenses:		
Management fee		253,342
Administration fee		27,688
Services to shareholders		159
Distribution service fee (Class B)		3,846
Record keeping fees (Class B)		1,477
Custodian fee		53,641
Audit and tax fees		30,758
Legal fees		4,796
Reports to shareholders		11,994
Trustees' fees and expenses		2,366
Other		15,931
Total expenses before expense reductions		405,998
Expense reductions		(118,106)
Total expenses after expense reductions		287,892
Net investment income (loss)		**603,329**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(1,043,205)
Foreign currency		(21,058)
		(1,064,263)
Change in net unrealized appreciation (depreciation) on:		
Investments		3,152,727
Foreign currency		749
		3,153,476
Net gain (loss)		**2,089,213**
Net increase (decrease) in net assets resulting from operations	**$**	**2,692,542**

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, 2012 (Unaudited)	Year Ended December 31, 2011
Operations:		
Net investment income (loss)	$ 603,329	$ 781,153
Net realized gain (loss)	(1,064,263)	41,917
Change in net unrealized appreciation (depreciation)	3,153,476	(9,895,185)
Net increase (decrease) in net assets resulting from operations	2,692,542	(9,072,115)
Distributions to shareholders from:		
Net investment income:		
Class A	(741,039)	(391,766)
Class B	(31,068)	(9,700)
Total distributions	(772,107)	(401,466)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,784,146	3,929,750
Reinvestment of distributions	741,039	391,766
Payments for shares redeemed	(4,285,021)	(13,903,803)
Net increase (decrease) in net assets from Class A share transactions	(759,836)	(9,582,287)
Class B		
Proceeds from shares sold	41,421	106,041
Reinvestment of distributions	31,068	9,700
Payments for shares redeemed	(624,016)	(1,299,469)
Net increase (decrease) in net assets from Class B share transactions	(551,527)	(1,183,728)
Increase (decrease) in net assets	609,072	(20,239,596)
Net assets at beginning of period	52,378,031	72,617,627
Net assets at end of period (including undistributed net investment income of $571,875 and $740,653, respectively)	**$ 52,987,103**	**$ 52,378,031**

Other Information		
Class A		
Shares outstanding at beginning of period	6,234,878	7,301,949
Shares sold	320,953	458,129
Shares issued to shareholders in reinvestment of distributions	85,967	39,334
Shares redeemed	(503,925)	(1,564,534)
Net increase (decrease) in Class A shares	(97,005)	(1,067,071)
Shares outstanding at end of period	**6,137,873**	**6,234,878**
Class B		
Shares outstanding at beginning of period	393,322	519,624
Shares sold	4,941	12,482
Shares issued to shareholders in reinvestment of distributions	3,592	971
Shares redeemed	(72,592)	(139,755)
Net increase (decrease) in Class B shares	(64,059)	(126,302)
Shares outstanding at end of period	**329,263**	**393,322**

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

Financial Highlights

Class A	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$ 7.90**	**$ 9.28**	**$ 8.24**	**$ 5.84**	**$15.66**	**$17.39**
Income (loss) from investment operations:						
Net investment income[a]	.09	.11	.06	.08	.11	.14
Net realized and unrealized gain (loss)	.32	(1.43)	1.06	2.42	(5.83)	.88
Total from investment operations	.41	(1.32)	1.12	2.50	(5.72)	1.02
Less distributions from:						
Net investment income	(.12)	(.06)	(.08)	(.10)	(.19)	(.11)
Net realized gains	—	—	—	—	(3.91)	(2.64)
Total distributions	(.12)	(.06)	(.08)	(.10)	(4.10)	(2.75)
Net asset value, end of period	**$ 8.19**	**$ 7.90**	**$ 9.28**	**$ 8.24**	**$ 5.84**	**$15.66**
Total Return (%)[b]	5.12**	(14.39)	13.65	43.82	(47.75)	6.29
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	50	49	68	66	59	151
Ratio of expenses before expense reductions (%)	1.45*	1.37	1.41	1.38	1.47	1.44
Ratio of expenses after expense reductions (%)	1.02*	1.03	1.05	1.04	1.09	1.11
Ratio of net investment income (%)	1.10***	1.24	.77	1.23	1.09	.82
Portfolio turnover rate (%)	56**	127	165	190	229	191

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

* Annualized

** Not annualized

*** Not annualized. The ratio for the six months ended June 30, 2012 has not been annualized, since the Fund believes it would not be appropriate because the Fund's dividend income is not earned ratably throughout the year.

Class B	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$ 7.91**	**$ 9.29**	**$ 8.25**	**$ 5.85**	**$15.66**	**$17.38**
Income (loss) from investment operations:						
Net investment income[a]	.08	.08	.04	.06	.07	.07
Net realized and unrealized gain (loss)	.32	(1.44)	1.05	2.42	(5.83)	.90
Total from investment operations	.40	(1.36)	1.09	2.48	(5.76)	.97
Less distributions from:						
Net investment income	(.09)	(.02)	(.05)	(.08)	(.14)	(.05)
Net realized gains	—	—	—	—	(3.91)	(2.64)
Total distributions	(.09)	(.02)	(.05)	(.08)	(4.05)	(2.69)
Net asset value, end of period	**$ 8.22**	**$ 7.91**	**$ 9.29**	**$ 8.25**	**$ 5.85**	**$15.66**
Total Return (%)[b]	4.87**	(14.67)	13.24	43.23	(47.87)	5.84
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	3	3	5	5	4	10
Ratio of expenses before expense reductions (%)	1.79*	1.72	1.76	1.73	1.82	1.81
Ratio of expenses after expense reductions (%)	1.36*	1.38	1.40	1.39	1.45	1.47
Ratio of net investment income (%)	.89***	.88	.42	.88	.73	.46
Portfolio turnover rate (%)	56**	127	165	190	229	191

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

* Annualized

** Not annualized

*** Not annualized. The ratio for the six months ended June 30, 2012 has not been annualized, since the Fund believes it would not be appropriate because the Fund's dividend income is not earned ratably throughout the year.

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

DWS Global Thematic VIP (the "Fund") is a diversified series of DWS Variable Series II (the "Trust"), which is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company organized as a Massachusetts business trust.

Multiple Classes of Shares of Beneficial Interest. The Fund offers two classes of shares (Class A shares and Class B shares). Sales of Class B shares are subject to recordkeeping 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 for Class B shares of the Fund. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain fund-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 Rule 12b-1 fee and recordkeeping 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 Fund'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 Fund in the preparation of its financial statements.

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.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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. For certain 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, a fair valuation model may be used. This fair valuation model takes into account comparisons to the valuation of American Depository Receipts (ADRs), exchange-traded funds, futures contracts and certain indices and these securities are categorized as Level 2.

Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

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 Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. 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 acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. 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 gain/appreciation and loss/depreciation on investments.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the issuer of securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Participatory Notes. The Fund invests in Participatory Notes (P-Notes). P-Notes are promissory notes designed to offer a return linked to the performance of a particular underlying equity security or market. P-Notes are issued by banks or broker-dealers and allow the Fund to gain exposure to local shares in foreign markets. Investments in P-Notes involve the same risks associated with a direct investment in the underlying foreign companies or foreign markets that they seek to replicate. Although each participation note is structured with a defined maturity date, early redemption may be possible. Risks associated with participation notes include the possible failure of a counterparty to perform in accordance with the terms of the agreement and potential delays or an inability to redeem before maturity under certain market conditions.

Taxes. The Fund's 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 income to its shareholders.

Additionally, based on the Fund's understanding of the tax rules and rates related to income, gains and transactions for the foreign jurisdictions in which it invests, the Fund will provide for foreign taxes and, where appropriate, deferred foreign taxes.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $51,528,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($35,241,000) and December 31, 2017 ($16,287,000), the respective expiration dates, whichever occurs first.

From November 1, 2011 through December 31, 2011, the Fund elects to defer qualified late year losses of approximately $96,000 of net long-term realized capital losses and $1,494,000 of net short-term realized capital losses and treat them as arising in the fiscal year ending December 31, 2012.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. Distributions of net investment income of the Fund, if any, are made annually. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the Fund if not distributed and, therefore, will be distributed to shareholders at least annually. The Fund may also make additional distributions for tax purposes if necessary.

The timing and characterization of certain income and capital gain 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 foreign denominated investments, income received from Passive Foreign Investment Companies 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 Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

The tax character of current year distributions will be determined at the end of the current fiscal year.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

Contingencies. In the normal course of business, the Fund may enter into contracts with service providers that contain general 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 been made. However, based on experience, the Fund expects 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 Fund is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Purchases and Sales of Securities

During the six months ended June 30, 2012, purchases and sales of investment transactions (excluding short-term investments) aggregated $30,203,556 and $32,997,764, respectively.

C. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund 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 Fund or delegates such responsibility to the Fund's subadvisor.

Global Thematic Partners, LLC ("GTP") serves as subadvisor. As a subadvisor to the Fund, GTP makes investment decisions and buys and sells securities for the Fund. GTP is paid by the Advisor for the services GTP provides to the Fund.

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays a monthly management fee based on the Fund's average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

First $250 million	.915%
Next $500 million	.865%
Next $750 million	.815%
Next $1.5 billion	.765%
Over $3 billion	.715%

For the period from January 1, 2012 through April 30, 2013, the Advisor has contractually agreed to waive its fee and/or reimburse certain operating expenses to the extent necessary to maintain the operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

Class A	1.02%
Class B	1.37%

Accordingly, for the six months ended June 30, 2012, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $117,978, and the amount charged aggregated $135,364, which was equivalent to an annualized effective rate of 0.49% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the six months ended June 30, 2012, the Administration Fee was $27,688, of which $4,185 is unpaid.

Service Provider Fees. DWS Investments Service Company ("DISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2012, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	Total Aggregated	Waived	Unpaid at June 30, 2012
Class A	$ 128	$ 128	$ —
Class B	31	—	10
	$ 159	**$ 128**	**$ 10**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plans, DWS Investments Distributors, Inc. ("DIDI") received a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the six months ended June 30, 2012, the Distribution Service Fee aggregated $3,846, of which $535 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2012, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $10,766, of which $1,983 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

D. Investing in Emerging Markets

Investing in emerging markets may involve special risks and considerations not typically associated with investing in developed markets. These risks include revaluation of currencies, high rates of inflation or deflation, 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 or delayed settlements, and may have prices that are more volatile or less easily assessed than those of comparable securities of issuers in developed markets.

E. Ownership of the Fund

At June 30, 2012, two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 59% and 30%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 97%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $375 million revolving credit facility provided by a syndication of banks. The Fund may borrow 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 on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at June 30, 2012.

Information About Your Fund's Expenses (Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, 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 Fund 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 Fund limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (January 1, 2012 to June 30, 2012).

The tables illustrate your Fund's expenses in two ways:

- **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund'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% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund'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. 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, 2012

Actual Fund Return	Class A	Class B
Beginning Account Value 1/1/12	$1,000.00	$1,000.00
Ending Account Value 6/30/12	$1,051.20	$1,048.70
Expenses Paid per $1,000*	$ 5.20	$ 6.93

Hypothetical 5% Fund Return	Class A	Class B
Beginning Account Value 1/1/12	$1,000.00	$1,000.00
Ending Account Value 6/30/12	$1,019.79	$1,018.10
Expenses Paid per $1,000*	$ 5.12	$ 6.82

* Expenses are equal to the Fund's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by 182 (the number of days in the most recent six-month period), then divided by 366.

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Global Thematic VIP	1.02%	1.36%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

Proxy Voting

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 are available on our Web site — www.dws-investments.com (click on "proxy voting" at the bottom of the page) — 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) 728-3337.

Summary of Management Fee Evaluation by Independent Fee Consultant

September 26, 2011

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds (formerly the DWS Scudder Funds). My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2011, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007, 2008, 2009 and 2010.

Qualifications

For more than 35 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past ten years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds and have served in various leadership and financial oversight capacities with non-profit organizations.

Evaluation of Fees for each DWS Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 109 mutual fund portfolios in the DWS Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

- The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.
- The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

DeAM's Fees for Similar Services to Others

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Fund. These similar products included the other DWS Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

Costs and Profit Margins

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

Economies of Scale

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Fund compares with this industry observation, I reviewed:

- The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.
- Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.
- How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

Quality of Service — Performance

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

Complex-Level Considerations

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

- I reviewed DeAM's profitability analysis for all DWS Funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.
- I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.
- I considered how aggregated DWS Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.
- I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

Findings

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Funds are reasonable.

Thomas H. Mack

Thomas H. Mack
President, Thomas H. Mack & Co., Inc.

Notes

DWS Investments Distributors, Inc.
222 South Riverside Plaza
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(800) 621-1148

VS2GT-3 (R-028383-1 8/12)

JUNE 30, 2012

SEMIANNUAL REPORT

DWS VARIABLE SERIES II

DWS Unconstrained Income VIP

DWS INVESTMENTS
Deutsche Bank Group

Contents

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus or summary prospectus, if available, call (800) 728-3337 or your financial representative. We advise you to consider the Fund's objectives, risks, charges and expenses carefully before investing. The summary prospectus and prospectus contain this and other important information about the Fund. Please read the prospectus carefully before you invest.

Bond investments are subject to interest-rate and credit risks. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities. The Fund may use derivatives, including as part of its Global Tactical Asset Allocation (GTAA) strategy. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. The Fund may lend securities to approved institutions. See the prospectus for details.

DWS Investments is part of Deutsche Bank's Asset Management division and, within the U.S., represents the retail asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.

NOT FDIC/NCUA INSURED NO BANK GUARANTEE MAY LOSE VALUE NOT A DEPOSIT
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

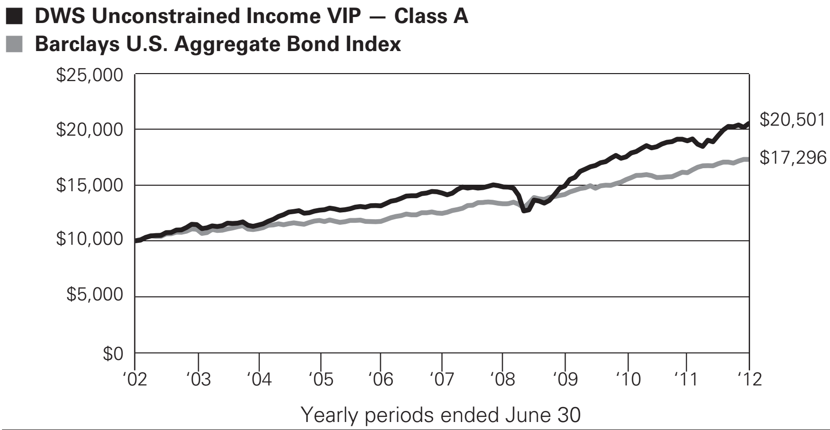
Performance Summary

June 30, 2012 (Unaudited)

Fund 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 contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns.

The gross expense ratio of the Fund, as stated in the fee table of the prospectus dated May 1, 2012 is 0.99% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Growth of an Assumed $10,000 Investment in DWS Unconstrained Income VIP



The Barclays U.S. Aggregate Bond Index is an unmanaged index representing domestic taxable investment-grade bonds, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities with average maturities of one year or more.

Index returns do not reflect any fees or expenses and it is not possible to invest directly into an index.

Comparative Results

DWS Unconstrained Income VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,563	$10,818	$13,759	$14,365	$20,501
	Average annual total return	5.63%	8.18%	11.22%	7.51%	7.44%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$10,237	$10,747	$12,227	$13,890	$17,296
	Average annual total return	2.37%	7.47%	6.93%	6.79%	5.63%

The growth of $10,000 is cumulative.

‡ Total returns shown for periods less than one year are not annualized.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/12**	**12/31/11**
Corporate Bonds	60%	66%
Government & Agency Obligations	15%	11%
Cash Equivalents	10%	8%
Collateralized Mortgage Obligations	4%	4%
Loan Participations and Assignments	4%	3%
Commercial Mortgage-Backed Securities	3%	2%
Mortgage-Backed Securities Pass-Throughs	2%	—
Municipal Bonds and Notes	1%	1%
Asset-Backed	1%	1%
Convertible Bonds	0%	3%
Preferred Securities	0%	1%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	**6/30/12**	**12/31/11**
AAA	13%	8%
AA	2%	3%
A	6%	9%
BBB	24%	23%
BB	22%	24%
B	24%	25%
CCC	3%	4%
Not Rated	6%	4%
	100%	100%

Interest Rate Sensitivity	**6/30/12**	**12/31/11**
Effective Maturity	6.6 years	6.0 years
Effective Duration	4.6 years	4.4 years

The quality ratings represent the higher 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. Credit quality measures a bond issuer's ability to repay interest and principal in a timely manner. Ratings are relative and subjective and are not absolute standards of quality. Credit quality does not remove market risk and is subject to change.

Effective maturity is the weighted average of the maturity date of bonds held by the Fund taking into consideration any available maturity shortening features.

Effective duration is an approximate measure of the Fund's sensitivity to interest rate changes taking into consideration any maturity shortening features.

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 5.

Following the Fund'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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management Team

Gary Russell, CFA
William Chepolis, CFA
John D. Ryan
Philip G. Condon
Ohn Choe, CFA
Darwei Kung

Portfolio Managers, Deutsche Investment Management Americas Inc.

Robert Wang
Thomas Picciochi

Portfolio Managers, QS Investors, LLC, Subadvisor to the Fund

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 60.5%		
Consumer Discretionary 8.8%		
AMC Networks, Inc., 144A, 7.75%, 7/15/2021	15,000	16,538
American Achievement Corp., 144A, 10.875%, 4/15/2016	45,000	32,738
Asbury Automotive Group, Inc., 8.375%, 11/15/2020	80,000	87,200
AutoZone, Inc., 3.7%, 4/15/2022	90,000	92,700
Avis Budget Car Rental LLC:		
8.25%, 1/15/2019	95,000	101,887
9.625%, 3/15/2018	45,000	49,275
Block Communications, Inc., 144A, 7.25%, 2/1/2020	65,000	65,975
Bresnan Broadband Holdings LLC, 144A, 8.0%, 12/15/2018 (b)	95,000	99,275
Cablevision Systems Corp.:		
7.75%, 4/15/2018	10,000	10,650
8.0%, 4/15/2020	10,000	10,800
Caesar's Entertainment Operating Co., Inc.:		
144A, 8.5%, 2/15/2020	120,000	120,900
11.25%, 6/1/2017	240,000	261,900
CCO Holdings LLC:		
6.5%, 4/30/2021	215,000	228,975
6.625%, 1/31/2022	70,000	74,900
7.0%, 1/15/2019	20,000	21,600
7.25%, 10/30/2017	90,000	98,100
7.375%, 6/1/2020	10,000	10,988
7.875%, 4/30/2018	40,000	43,500
8.125%, 4/30/2020	25,000	27,875
Cequel Communications Holdings I LLC, 144A, 8.625%, 11/15/2017	300,000	323,250
Chester Downs & Marina LLC, 144A, 9.25%, 2/1/2020	25,000	26,063
Clear Channel Communications, Inc., 9.0%, 3/1/2021	25,000	21,750
Clear Channel Worldwide Holdings, Inc.:		
144A, 7.625%, 3/15/2020	20,000	19,150
144A, 7.625%, 3/15/2020	185,000	180,837
Series A, 9.25%, 12/15/2017	15,000	16,313
Series B, 9.25%, 12/15/2017	25,000	27,250
Crown Media Holdings, Inc., 10.5%, 7/15/2019	55,000	59,400
Cumulus Media Holdings, Inc., 7.75%, 5/1/2019 (b)	45,000	42,412
Desarrolladora Homex SAB de CV, 144A, 9.75%, 3/25/2020 (b)	200,000	210,000
DIRECTV Holdings LLC, 3.8%, 3/15/2022	200,000	202,259
Discovery Communications LLC, 3.3%, 5/15/2022	50,000	50,461
DISH DBS Corp.:		
6.625%, 10/1/2014	65,000	69,712
6.75%, 6/1/2021	10,000	10,800
7.125%, 2/1/2016	155,000	170,112
Fontainebleau Las Vegas Holdings LLC, 144A, 11.0%, 6/15/2015*	65,000	41
Great Canadian Gaming Corp., 144A, 7.25%, 2/15/2015	55,000	55,756
Harron Communications LP, 144A, 9.125%, 4/1/2020	45,000	46,575
Hertz Corp.:		
6.75%, 4/15/2019 (b)	15,000	15,600
144A, 6.75%, 4/15/2019	35,000	36,400
7.5%, 10/15/2018	155,000	166,237
Lear Corp.:		
7.875%, 3/15/2018	40,000	44,150
8.125%, 3/15/2020	40,000	44,800
Libbey Glass, Inc., 144A, 6.875%, 5/15/2020	20,000	20,550
Limited Brands, Inc., 7.0%, 5/1/2020	20,000	22,200
Lions Gate Entertainment, Inc., 144A, 10.25%, 11/1/2016	95,000	104,025
Lowe's Companies, Inc., 3.12%, 4/15/2022	80,000	81,858
Macy's Retail Holdings, Inc., 5.125%, 1/15/2042	80,000	84,217
Marriott International, Inc., 3.0%, 3/1/2019	60,000	60,664
Mattel, Inc., 5.45%, 11/1/2041	141,400	154,557
Mediacom Broadband LLC, 8.5%, 10/15/2015 (b)	110,000	113,025
Mediacom LLC:		
7.25%, 2/15/2022	20,000	20,350
9.125%, 8/15/2019	30,000	32,925
MGM Resorts International:		
7.625%, 1/15/2017	100,000	103,250
144A, 8.625%, 2/1/2019	140,000	149,800
9.0%, 3/15/2020	65,000	72,150
10.375%, 5/15/2014	45,000	50,737
11.125%, 11/15/2017	50,000	56,125
Michaels Stores, Inc., 13.0%, 11/1/2016	15,000	16,069
National CineMedia LLC:		
144A, 6.0%, 4/15/2022	35,000	35,612
7.875%, 7/15/2021	45,000	47,700
Palace Entertainment Holdings LLC, 144A, 8.875%, 4/15/2017	75,000	78,375
Penske Automotive Group, Inc., 7.75%, 12/15/2016	120,000	124,500
Regal Entertainment Group, 9.125%, 8/15/2018 (b)	35,000	38,500
Sabre Holdings Corp., 8.35%, 3/15/2016	55,000	51,975
Seminole Indian Tribe of Florida:		
144A, 7.75%, 10/1/2017	40,000	43,600
144A, 7.804%, 10/1/2020	70,000	69,413

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

		Principal Amount ($)(a)	Value ($)
Servicios Corporativos Javer SAPI de CV, 144A, 9.875%, 4/6/2021		100,000	94,000
Sirius XM Radio, Inc., 144A, 8.75%, 4/1/2015		155,000	174,375
Sonic Automotive, Inc.:			
144A, 7.0%, 7/15/2022 (c)		15,000	15,525
Series B, 9.0%, 3/15/2018		95,000	103,312
Toys ”R” Us-Delaware, Inc., 144A, 7.375%, 9/1/2016		35,000	34,650
Travelport LLC, 9.0%, 3/1/2016		10,000	7,000
UCI International, Inc., 8.625%, 2/15/2019		20,000	20,125
Unitymedia Hessen GmbH & Co., KG, 144A, 8.125%, 12/1/2017		200,000	215,000
Univision Communications, Inc.:			
144A, 6.875%, 5/15/2019		10,000	10,300
144A, 7.875%, 11/1/2020		25,000	26,750
UPC Holding BV:			
144A, 8.375%, 8/15/2020	EUR	50,000	65,490
144A, 9.75%, 4/15/2018	EUR	100,000	135,725
Visteon Corp., 6.75%, 4/15/2019		75,000	72,937
Whirlpool Corp., 4.7%, 6/1/2022		110,000	111,212
Wyndham Worldwide Corp., 5.75%, 2/1/2018		135,000	150,101
Yonkers Racing Corp., 144A, 11.375%, 7/15/2016		60,000	63,750
			6,227,533
Consumer Staples 2.6%			
Alliance One International, Inc., 10.0%, 7/15/2016		25,000	25,062
Altria Group, Inc., 9.95%, 11/10/2038		145,000	230,560
B&G Foods, Inc., 7.625%, 1/15/2018		35,000	37,625
Central Garden & Pet Co., 8.25%, 3/1/2018		15,000	15,038
Constellation Brands, Inc., 6.0%, 5/1/2022		15,000	16,125
Darling International, Inc., 8.5%, 12/15/2018		80,000	89,800
Del Monte Corp., 7.625%, 2/15/2019 (b)		80,000	80,700
Delhaize Group SA, 4.125%, 4/10/2019		140,000	135,452
Dole Food Co., Inc., 144A, 8.0%, 10/1/2016		20,000	20,875
FAGE Dairy Industry SA, 144A, 9.875%, 2/1/2020		85,000	74,800
Grupo Bimbo SAB de CV, 144A, 4.5%, 1/25/2022		200,000	212,759
JBS U.S.A. LLC, 144A, 8.25%, 2/1/2020		25,000	24,313
NBTY, Inc., 9.0%, 10/1/2018		25,000	27,625
Pilgrim’s Pride Corp., 7.875%, 12/15/2018		45,000	45,619
Reynolds American, Inc., 6.75%, 6/15/2017		200,000	240,114
Safeway, Inc., 4.75%, 12/1/2021		135,000	133,884
Smithfield Foods, Inc.:			
7.75%, 7/1/2017		220,000	243,375
10.0%, 7/15/2014		85,000	97,006

	Principal Amount ($)(a)	Value ($)
SUPERVALU, Inc., 8.0%, 5/1/2016 (b)	35,000	35,437
TreeHouse Foods, Inc., 7.75%, 3/1/2018	45,000	48,769
		1,834,938
Energy 8.1%		
Alpha Natural Resources, Inc., 6.0%, 6/1/2019 (b)	60,000	51,150
Arch Coal, Inc.:		
7.0%, 6/15/2019 (b)	20,000	16,900
7.25%, 10/1/2020	20,000	16,900
7.25%, 6/15/2021 (b)	35,000	29,313
8.75%, 8/1/2016 (b)	60,000	57,300
Berry Petroleum Co., 6.75%, 11/1/2020	90,000	94,050
BreitBurn Energy Partners LP, 8.625%, 10/15/2020	35,000	37,013
Chesapeake Energy Corp.:		
6.125%, 2/15/2021 (b)	40,000	38,700
6.875%, 11/15/2020 (b)	90,000	88,650
Chesapeake Midstream Partners LP, 6.125%, 7/15/2022	55,000	53,900
Chesapeake Oilfield Operating LLC, 144A, 6.625%, 11/15/2019	25,000	22,500
Cimarex Energy Co., 5.875%, 5/1/2022	35,000	36,356
CITGO Petroleum Corp., 144A, 11.5%, 7/1/2017	105,000	117,862
CONSOL Energy, Inc.:		
6.375%, 3/1/2021	15,000	14,100
8.0%, 4/1/2017	75,000	77,812
8.25%, 4/1/2020	35,000	36,750
Continental Resources, Inc.:		
7.125%, 4/1/2021	30,000	33,450
7.375%, 10/1/2020	35,000	39,025
8.25%, 10/1/2019	20,000	22,350
Crestwood Midstream Partners LP, 7.75%, 4/1/2019	160,000	158,800
Crosstex Energy LP:		
144A, 7.125%, 6/1/2022	15,000	14,775
8.875%, 2/15/2018	55,000	58,094
Devon Energy Corp., 3.25%, 5/15/2022	135,000	137,347
Dresser-Rand Group, Inc., 6.5%, 5/1/2021	75,000	77,813
Eagle Rock Energy Partners LP, 8.375%, 6/1/2019	95,000	94,762
El Paso LLC, 7.25%, 6/1/2018 (b)	55,000	63,445
Energy Transfer Partners LP, 5.2%, 2/1/2022	140,000	149,928
EP Energy LLC:		
144A, 6.875%, 5/1/2019	60,000	62,700
144A, 9.375%, 5/1/2020	25,000	25,906
EV Energy Partners LP, 8.0%, 4/15/2019	140,000	138,950
Frontier Oil Corp., 6.875%, 11/15/2018	55,000	57,200
Genesis Energy LP, 7.875%, 12/15/2018	40,000	41,000
Global Geophysical Services, Inc., 10.5%, 5/1/2017	130,000	123,825
Halcon Resources Corp., 144A, 9.75%, 7/15/2020 (c)	50,000	50,875

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	Principal Amount ($)(a)	Value ($)
Holly Energy Partners LP:		
144A, 6.5%, 3/1/2020	20,000	20,150
8.25%, 3/15/2018	55,000	58,300
IPIC GMTN Ltd., 144A, 6.875%, 11/1/2041	200,000	233,500
Kinder Morgan Energy Partners LP, 5.8%, 3/1/2021	194,000	221,305
Kodiak Oil & Gas Corp., 144A, 8.125%, 12/1/2019	25,000	25,750
Linn Energy LLC:		
144A, 6.25%, 11/1/2019	110,000	107,800
144A, 6.5%, 5/15/2019	15,000	14,850
MEG Energy Corp., 144A, 6.5%, 3/15/2021	40,000	40,850
Newfield Exploration Co., 7.125%, 5/15/2018	90,000	95,287
Noble Holding International Ltd., 3.95%, 3/15/2022	50,000	50,559
Northern Oil & Gas, Inc., 144A, 8.0%, 6/1/2020	85,000	84,575
Oasis Petroleum, Inc.:		
6.5%, 11/1/2021	25,000	24,750
7.25%, 2/1/2019	40,000	41,000
Offshore Group Investments Ltd.:		
11.5%, 8/1/2015	10,000	10,850
144A, 11.5%, 8/1/2015	10,000	10,850
OGX Austria GmbH, 144A, 8.375%, 4/1/2022	200,000	172,500
Peabody Energy Corp.:		
144A, 6.0%, 11/15/2018	20,000	19,900
144A, 6.25%, 11/15/2021	25,000	24,750
Petroleos de Venezuela SA:		
144A, 8.5%, 11/2/2017	100,000	81,250
144A, 9.0%, 11/17/2021	100,000	72,700
Petroleos Mexicanos, 144A, 5.5%, 6/27/2044 (b)	700,000	715,750
Plains All American Pipeline LP, 3.65%, 6/1/2022	100,000	102,117
Plains Exploration & Production Co.:		
6.125%, 6/15/2019	40,000	40,200
6.75%, 2/1/2022	80,000	81,600
7.625%, 6/1/2018	60,000	63,750
Quicksilver Resources, Inc., 11.75%, 1/1/2016	15,000	14,606
Regency Energy Partners LP:		
6.875%, 12/1/2018	35,000	36,838
9.375%, 6/1/2016	75,000	82,500
Reliance Holdings U.S.A., Inc.:		
144A, 5.4%, 2/14/2022	250,000	249,985
144A, 6.25%, 10/19/2040 (b)	250,000	234,500
SandRidge Energy, Inc., 7.5%, 3/15/2021	20,000	19,750
SESI LLC:		
6.375%, 5/1/2019	40,000	41,900
144A, 7.125%, 12/15/2021	115,000	125,062
Stone Energy Corp., 8.625%, 2/1/2017	25,000	25,375
Swift Energy Co., 7.875%, 3/1/2022	70,000	70,350
Venoco, Inc., 8.875%, 2/15/2019	105,000	95,550
Weatherford International Ltd., 4.5%, 4/15/2022	95,000	97,366

		Principal Amount ($)(a)	Value ($)
WPX Energy, Inc.:			
5.25%, 1/15/2017		75,000	75,938
6.0%, 1/15/2022		55,000	54,725
			5,778,839
Financials 16.1%			
African Development Bank, 5.75%, 1/25/2016	AUD	500,000	546,266
Ally Financial, Inc.:			
5.5%, 2/15/2017		60,000	60,944
6.25%, 12/1/2017		95,000	100,065
8.0%, 3/15/2020		115,000	132,250
8.3%, 2/12/2015		135,000	147,150
Alrosa Finance SA, 144A, 7.75%, 11/3/2020		200,000	209,454
American International Group, Inc.:			
3.8%, 3/22/2017		60,000	61,163
Series G, 5.6%, 10/18/2016		145,000	157,670
AmeriGas Finance LLC:			
6.75%, 5/20/2020		20,000	20,400
7.0%, 5/20/2022		20,000	20,600
Antero Resources Finance Corp.:			
7.25%, 8/1/2019		50,000	51,750
9.375%, 12/1/2017		30,000	33,150
Banco Bradesco SA:			
144A, 4.5%, 1/12/2017		200,000	208,360
144A, 5.75%, 3/1/2022		200,000	202,500
Banco de Bogota SA, 144A, 5.0%, 1/15/2017		200,000	211,000
Banco Latinoamericano de Comercio Exterior SA, 144A, 3.75%, 4/4/2017		150,000	149,250
Bancolombia SA, 5.95%, 6/3/2021		200,000	213,500
Bank of America Corp., 5.0%, 5/13/2021		150,000	154,756
Bank of Ireland Mortgage Bank, 4.0%, 7/5/2013	EUR	750,000	915,905
Braskem America Finance Co., 144A, 7.125%, 7/22/2041 (b)		200,000	199,500
Calpine Construction Finance Co., LP, 144A, 8.0%, 6/1/2016		200,000	216,000
Case New Holland, Inc., 7.75%, 9/1/2013		45,000	47,812
CCL Finance Ltd., 144A, 9.5%, 8/15/2014		100,000	111,280
CIT Group, Inc.:			
144A, 4.75%, 2/15/2015		260,000	266,175
5.0%, 5/15/2017		80,000	82,400
5.25%, 3/15/2018		90,000	92,925
144A, 7.0%, 5/2/2017		136,288	136,544
Citigroup, Inc., 5.875%, 1/30/2042		60,000	65,530
CNOOC Finance 2012 Ltd., 144A, 3.875%, 5/2/2022 (b)		200,000	206,856
Codere Finance Luxembourg SA, 144A, 9.25%, 2/15/2019		35,000	24,675
Deutsche Telekom International Finance BV, 144A, 4.875%, 3/6/2042		200,000	190,009

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		Principal Amount ($)(a)	Value ($)
E*TRADE Financial Corp.:			
6.75%, 6/1/2016		130,000	132,275
12.5%, 11/30/2017		50,000	57,312
Export Credit Bank of Turkey, 144A, 5.375%, 11/4/2016		250,000	258,125
Fibria Overseas Finance Ltd., 144A, 6.75%, 3/3/2021		150,000	149,700
Ford Motor Credit Co., LLC:			
144A, 3.984%, 6/15/2016		145,000	149,337
7.5%, 8/1/2012		500,000	501,971
Fresenius Medical Care U.S. Finance II, Inc.:			
144A, 5.625%, 7/31/2019		35,000	36,487
144A, 5.875%, 1/31/2022		30,000	31,238
Fresenius Medical Care U.S. Finance, Inc., 144A, 6.5%, 9/15/2018		20,000	21,750
General Electric Capital Corp., 5.3%, 2/11/2021		75,000	84,179
Hartford Financial Services Group, Inc., 5.125%, 4/15/2022		80,000	82,380
HCP, Inc., (REIT), 5.375%, 2/1/2021		143,000	158,130
Hellas Telecommunications Finance SCA, 144A, 8.985%**, 7/15/2015 (PIK)*	EUR	109,187	83
Hexion U.S. Finance Corp.:			
6.625%, 4/15/2020		15,000	15,375
8.875%, 2/1/2018		340,000	346,800
International Lease Finance Corp.:			
5.75%, 5/15/2016		20,000	20,292
6.25%, 5/15/2019		50,000	50,937
8.625%, 9/15/2015		40,000	44,200
8.625%, 1/15/2022		45,000	52,113
8.75%, 3/15/2017		180,000	202,050
Itau Unibanco Holding SA, 144A, 5.65%, 3/19/2022		200,000	200,760
JPMorgan Chase & Co., 4.35%, 8/15/2021		200,000	211,080
Level 3 Financing, Inc.:			
8.125%, 7/1/2019		75,000	76,969
8.625%, 7/15/2020 (b)		50,000	52,500
Lincoln National Corp., 4.2%, 3/15/2022		60,000	59,950
MPT Operating Partnership LP (REIT):			
6.375%, 2/15/2022		30,000	30,075
6.875%, 5/1/2021		50,000	52,125
Murray Street Investment Trust I, 4.647%, 3/9/2017		200,000	200,386
Neuberger Berman Group LLC:			
144A, 5.625%, 3/15/2020		25,000	26,063
144A, 5.875%, 3/15/2022		45,000	47,025
NII Capital Corp., 7.625%, 4/1/2021		70,000	60,025
Nuveen Investments, Inc., 10.5%, 11/15/2015		185,000	187,775
Odebrecht Finance Ltd., 144A, 5.125%, 6/26/2022		200,000	198,060
Petrobras International Finance Co., 5.75%, 1/20/2020		200,000	218,776
Reynolds Group Issuer, Inc.:			
144A, 6.875%, 2/15/2021		100,000	104,000
144A, 7.125%, 4/15/2019		100,000	104,750
Santander US Debt SA Unipersonal, 144A, 3.724%, 1/20/2015		45,000	41,855
Schaeffler Finance BV, 144A, 7.75%, 2/15/2017	EUR	100,000	131,941
Simon Property Group LP, 4.75%, 3/15/2042		100,000	100,040
Telemovil Finance Co., Ltd., 144A, 8.0%, 10/1/2017		100,000	102,497
The Goldman Sachs Group, Inc., 5.75%, 1/24/2022		160,000	168,897
Toys "R" Us Property Co. I, LLC, 10.75%, 7/15/2017		50,000	54,625
UR Merger Sub Corp.:			
144A, 5.75%, 7/15/2018		60,000	62,400
144A, 7.375%, 5/15/2020		95,000	99,275
144A, 7.625%, 4/15/2022		95,000	99,512
Vale Overseas Ltd., 8.25%, 1/17/2034		250,000	319,035
Virgin Media Finance PLC, Series 1, 9.5%, 8/15/2016		125,000	139,375
Virgin Media Secured Finance PLC, 6.5%, 1/15/2018		375,000	407,812
Wells Fargo & Co., 3.5%, 3/8/2022		135,000	138,910
Xstrata Finance Canada Ltd., 144A, 4.95%, 11/15/2021		115,000	118,823
			11,445,889
Health Care 2.6%			
Amgen, Inc., 3.875%, 11/15/2021		100,000	105,586
Aviv Healthcare Properties LP, 7.75%, 2/15/2019		85,000	87,550
Community Health Systems, Inc., 8.875%, 7/15/2015		24,000	24,630
Express Scripts Holding Co., 144A, 4.75%, 11/15/2021		145,000	160,454
Gilead Sciences, Inc., 5.65%, 12/1/2041		145,000	169,021
HCA Holdings, Inc., 7.75%, 5/15/2021 (b)		105,000	112,612
HCA, Inc.:			
5.875%, 3/15/2022		40,000	41,800
6.5%, 2/15/2020		210,000	227,587
7.5%, 2/15/2022		155,000	168,950
7.875%, 2/15/2020		365,000	405,150
8.5%, 4/15/2019		45,000	50,400
Mylan, Inc., 144A, 7.875%, 7/15/2020		15,000	16,819
Physio-Control International, Inc., 144A, 9.875%, 1/15/2019		50,000	53,250
STHI Holding Corp., 144A, 8.0%, 3/15/2018		60,000	63,450
Tenet Healthcare Corp., 6.25%, 11/1/2018		100,000	105,750
Warner Chilcott Co., LLC, 7.75%, 9/15/2018		75,000	80,438
			1,873,447
Industrials 5.0%			
Accuride Corp., 9.5%, 8/1/2018		75,000	77,250
ADT Corp., 144A, 3.5%, 7/15/2022 (c)		90,000	90,302

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	Principal Amount ($)(a)	Value ($)
Air Lease Corp., 144A, 5.625%, 4/1/2017	75,000	73,875
ARAMARK Corp., 8.5%, 2/1/2015	20,000	20,475
ARAMARK Holdings Corp., 144A, 8.625%, 5/1/2016 (PIK)	20,000	20,475
Armored Autogroup, Inc., 144A, 9.5%, 11/1/2018	105,000	90,562
BE Aerospace, Inc.:		
6.875%, 10/1/2020	25,000	27,625
8.5%, 7/1/2018	85,000	92,969
Belden, Inc.:		
7.0%, 3/15/2017	45,000	46,350
9.25%, 6/15/2019	40,000	43,600
Bombardier, Inc.:		
144A, 5.75%, 3/15/2022	55,000	54,794
144A, 7.75%, 3/15/2020	45,000	50,063
Briggs & Stratton Corp., 6.875%, 12/15/2020	35,000	37,450
Casella Waste Systems, Inc., 7.75%, 2/15/2019	110,000	108,350
Cenveo Corp., 8.875%, 2/1/2018	85,000	76,075
Ducommun, Inc., 9.75%, 7/15/2018	65,000	68,413
DynCorp International, Inc., 10.375%, 7/1/2017	85,000	72,675
Florida East Coast Railway Corp., 8.125%, 2/1/2017	40,000	41,800
FTI Consulting, Inc., 6.75%, 10/1/2020	145,000	152,975
Garda World Security Corp., 144A, 9.75%, 3/15/2017	60,000	63,450
H&E Equipment Services, Inc., 8.375%, 7/15/2016	110,000	113,437
Huntington Ingalls Industries, Inc.:		
6.875%, 3/15/2018	50,000	52,125
7.125%, 3/15/2021	10,000	10,450
Interline Brands, Inc., 7.0%, 11/15/2018	50,000	52,000
JSC Georgian Railway, 144A, 7.75%, 7/11/2022 (c)	200,000	199,602
Kansas City Southern de Mexico SA de CV, 8.0%, 2/1/2018	105,000	116,949
Masco Corp., 7.125%, 3/15/2020	145,000	159,987
Meritor, Inc.:		
8.125%, 9/15/2015	55,000	57,956
10.625%, 3/15/2018 (b)	60,000	63,750
Navios Maritime Holdings, Inc.:		
8.125%, 2/15/2019	135,000	115,425
144A, 8.875%, 11/1/2017 (c)	35,000	35,085
Nortek, Inc., 8.5%, 4/15/2021	125,000	122,187
Owens Corning, Inc., 9.0%, 6/15/2019	167,000	208,224
Ply Gem Industries, Inc., 13.125%, 7/15/2014	30,000	30,375
RBS Global, Inc. & Rexnord Corp., 8.5%, 5/1/2018	120,000	130,200
Sitel LLC, 11.5%, 4/1/2018	95,000	67,688
Spirit AeroSystems, Inc., 6.75%, 12/15/2020	75,000	81,750
Titan International, Inc., 7.875%, 10/1/2017	160,000	164,800
TransDigm, Inc., 7.75%, 12/15/2018	65,000	71,337
Transnet SOC Ltd., 144A, 4.5%, 2/10/2016	200,000	208,508
Urbi, Desarrollos Urbanos SAB de CV, 144A, 9.75%, 2/3/2022	200,000	211,000
		3,582,363
Information Technology 2.3%		
Aspect Software, Inc., 10.625%, 5/15/2017	60,000	63,600
Avaya, Inc., 144A, 7.0%, 4/1/2019	145,000	134,487
CDW LLC, 8.5%, 4/1/2019	45,000	47,925
CommScope, Inc., 144A, 8.25%, 1/15/2019	85,000	89,888
Corning, Inc., 4.75%, 3/15/2042	130,000	136,226
eAccess Ltd., 144A, 8.25%, 4/1/2018	60,000	54,600
Equinix, Inc.:		
7.0%, 7/15/2021	40,000	44,000
8.125%, 3/1/2018	140,000	155,050
Fidelity National Information Services, Inc.:		
144A, 5.0%, 3/15/2022	15,000	15,263
7.625%, 7/15/2017	20,000	22,050
144A, 7.625%, 7/15/2017	10,000	10,975
First Data Corp.:		
144A, 7.375%, 6/15/2019	45,000	45,900
144A, 8.875%, 8/15/2020	85,000	92,012
Freescale Semiconductor, Inc., 144A, 9.25%, 4/15/2018	190,000	203,300
Hughes Satellite Systems Corp.:		
6.5%, 6/15/2019	40,000	42,500
7.625%, 6/15/2021	40,000	43,500
Jabil Circuit, Inc., 7.75%, 7/15/2016	30,000	34,200
MasTec, Inc., 7.625%, 2/1/2017	65,000	67,438
Sanmina-SCI Corp., 144A, 7.0%, 5/15/2019	45,000	43,650
Seagate HDD Cayman, 7.0%, 11/1/2021	10,000	10,775
Sensata Technologies BV, 144A, 6.5%, 5/15/2019	50,000	51,625
SunGard Data Systems, Inc., 10.25%, 8/15/2015	215,000	220,912
ViaSat, Inc., 144A, 6.875%, 6/15/2020	10,000	10,100
		1,639,976
Materials 6.7%		
Aleris International, Inc., 7.625%, 2/15/2018	40,000	40,600
APERAM, 144A, 7.375%, 4/1/2016	150,000	129,000
Appleton Papers, Inc., 11.25%, 12/15/2015	25,000	26,688
ArcelorMittal, 4.5%, 2/25/2017	140,000	137,859
Ball Corp.:		
7.125%, 9/1/2016	30,000	32,663
7.375%, 9/1/2019	25,000	27,625
Beverage Packaging Holdings Luxembourg II SA, 144A, 8.0%, 12/15/2016 EUR	70,000	83,270

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	Principal Amount ($)(a)	Value ($)
BWAY Parent Co., Inc., 10.125%, 11/1/2015 (PIK)	46,952	47,656
Celulosa Arauco y Constitucion SA, 144A, 4.75%, 1/11/2022	200,000	204,456
China Oriental Group Co., Ltd.:		
144A, 7.0%, 11/17/2017	100,000	76,250
144A, 8.0%, 8/18/2015	100,000	87,500
Clearwater Paper Corp., 7.125%, 11/1/2018	65,000	68,575
Clondalkin Acquisition BV, 144A, 2.468%**, 12/15/2013	75,000	66,750
Corp Nacional del Cobre de Chile, 144A, 3.875%, 11/3/2021	200,000	210,377
Crown Americas LLC:		
6.25%, 2/1/2021	10,000	10,925
7.625%, 5/15/2017	30,000	32,400
CSN Resources SA, 144A, 6.5%, 7/21/2020	100,000	108,330
Essar Steel Algoma, Inc.:		
144A, 9.375%, 3/15/2015	240,000	231,600
144A, 9.875%, 6/15/2015	85,000	72,037
Evraz Group SA, 144A, 7.4%, 4/24/2017	200,000	196,036
Exopack Holding Corp., 10.0%, 6/1/2018	40,000	40,100
FMG Resources (August 2006) Pty Ltd.:		
144A, 6.0%, 4/1/2017	55,000	55,275
144A, 6.875%, 4/1/2022	40,000	40,300
144A, 7.0%, 11/1/2015	25,000	25,500
144A, 8.25%, 11/1/2019	90,000	95,400
GEO Specialty Chemicals, Inc.:		
144A, 7.5%, 3/31/2015 (PIK)	120,175	111,150
10.0%, 3/31/2015	119,040	117,290
Graphic Packaging International, Inc.:		
7.875%, 10/1/2018	10,000	11,000
9.5%, 6/15/2017	130,000	143,000
Greif, Inc., 7.75%, 8/1/2019	195,000	222,300
Huntsman International LLC:		
8.625%, 3/15/2020	60,000	67,350
8.625%, 3/15/2021	25,000	28,188
International Paper Co., 7.95%, 6/15/2018	145,000	182,719
JMC Steel Group, 144A, 8.25%, 3/15/2018	60,000	59,550
Kaiser Aluminum Corp., 144A, 8.25%, 6/1/2020	40,000	40,800
Kraton Polymers LLC, 6.75%, 3/1/2019	35,000	36,487
Longview Fibre Paper & Packaging, Inc., 144A, 8.0%, 6/1/2016 (b)	60,000	60,000
LyondellBasell Industries NV, 144A, 6.0%, 11/15/2021	15,000	16,463
Molycorp, Inc., 144A, 10.0%, 6/1/2020	65,000	64,350
Novelis, Inc.:		
8.375%, 12/15/2017	160,000	171,200
8.75%, 12/15/2020	110,000	118,525
Owens-Brockway Glass Container, Inc., 7.375%, 5/15/2016	110,000	122,650

		Principal Amount ($)(a)	Value ($)
Packaging Dynamics Corp., 144A, 8.75%, 2/1/2016		90,000	94,500
Polymer Group, Inc., 7.75%, 2/1/2019		55,000	58,094
Quadra FNX Mining Ltd., 144A, 7.75%, 6/15/2019		115,000	120,175
Rain CII Carbon LLC, 144A, 8.0%, 12/1/2018		45,000	45,450
Sealed Air Corp.:			
144A, 8.125%, 9/15/2019		30,000	33,450
144A, 8.375%, 9/15/2021		30,000	33,900
United States Steel Corp., 7.375%, 4/1/2020 (b)		80,000	77,200
Viskase Companies, Inc., 144A, 9.875%, 1/15/2018		145,000	150,800
Volcan Cia Minera SAA, 144A, 5.375%, 2/2/2022		300,000	312,000
Vulcan Materials Co., 6.5%, 12/1/2016		105,000	110,512
Wolverine Tube, Inc., 6.0%, 6/28/2014		17,539	16,462
			4,772,737
Telecommunication Services 5.9%			
CC Holdings GS V, LLC, 144A, 7.75%, 5/1/2017		205,000	222,169
Cincinnati Bell, Inc.:			
8.25%, 10/15/2017		55,000	57,200
8.375%, 10/15/2020		180,000	183,600
8.75%, 3/15/2018		170,000	163,625
CPI International, Inc., 8.0%, 2/15/2018		45,000	40,556
Cricket Communications, Inc.:			
7.75%, 10/15/2020		310,000	296,050
10.0%, 7/15/2015		100,000	103,000
Crown Castle International Corp., 9.0%, 1/15/2015		195,000	212,794
Digicel Group Ltd., 144A, 10.5%, 4/15/2018		100,000	104,500
Digicel Ltd., 144A, 8.25%, 9/1/2017		300,000	305,250
ERC Ireland Preferred Equity Ltd., 144A, 7.69%**, 2/15/2017 (PIK)*	EUR	88,319	34
Frontier Communications Corp.:			
7.875%, 4/15/2015		7,000	7,700
8.25%, 4/15/2017 (b)		70,000	75,250
8.5%, 4/15/2020		90,000	95,400
8.75%, 4/15/2022		10,000	10,500
Intelsat Jackson Holdings SA:			
7.25%, 10/15/2020		120,000	126,300
7.5%, 4/1/2021		150,000	158,625
8.5%, 11/1/2019		100,000	110,750
Intelsat Luxembourg SA:			
11.25%, 2/4/2017		145,000	149,350
11.5%, 2/4/2017 (PIK)		304,218	314,105
144A, 11.5%, 2/4/2017 (PIK)		80,000	82,600
iPCS, Inc., 2.591%**, 5/1/2013		35,000	34,563
MetroPCS Wireless, Inc.:			
6.625%, 11/15/2020		90,000	88,650
7.875%, 9/1/2018 (b)		75,000	77,812
Nextel Communications, Inc., Series D, 7.375%, 8/1/2015		85,000	85,106

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

	Principal Amount ($)(a)	Value ($)
Qwest Communications International, Inc.:		
7.125%, 4/1/2018	55,000	58,025
8.0%, 10/1/2015	60,000	63,228
SBA Telecommunications, Inc.:		
8.0%, 8/15/2016	23,000	24,495
8.25%, 8/15/2019	16,000	17,520
Sprint Nextel Corp.:		
6.0%, 12/1/2016	240,000	229,800
8.375%, 8/15/2017	55,000	56,375
144A, 9.125%, 3/1/2017	50,000	52,500
Syniverse Holdings, Inc., 9.125%, 1/15/2019	25,000	27,125
Telesat Canada, 144A, 6.0%, 5/15/2017	40,000	40,700
West Corp.:		
7.875%, 1/15/2019	30,000	31,350
8.625%, 10/1/2018	15,000	15,900
Windstream Corp.:		
7.0%, 3/15/2019	60,000	61,500
7.5%, 4/1/2023	60,000	61,500
7.75%, 10/15/2020	35,000	37,100
7.875%, 11/1/2017	205,000	223,450
8.125%, 9/1/2018	70,000	75,250
Zayo Group LLC, 144A, 8.125%, 1/1/2020	15,000	15,675
		4,196,982
Utilities 2.4%		
AES Corp.:		
8.0%, 10/15/2017	10,000	11,375
8.0%, 6/1/2020	175,000	200,812
Calpine Corp.:		
144A, 7.5%, 2/15/2021	80,000	86,400
144A, 7.875%, 7/31/2020	60,000	66,150
Centrais Eletricas Brasileiras SA, 144A, 5.75%, 10/27/2021	200,000	218,600
Energy Future Holdings Corp., Series Q, 6.5%, 11/15/2024 (b)	205,000	97,888
IPALCO Enterprises, Inc., 5.0%, 5/1/2018	145,000	146,812
Korea Gas Corp., 144A, 6.25%, 1/20/2042	200,000	239,565
NRG Energy, Inc.:		
7.375%, 1/15/2017 (b)	90,000	93,600
7.625%, 1/15/2018	35,000	36,225
8.25%, 9/1/2020	15,000	15,525
Oncor Electric Delivery Co., LLC, 144A, 4.1%, 6/1/2022	160,000	163,128
Texas Competitive Electric Holdings Co., LLC, Series A, 10.25%, 11/1/2015	50,000	12,874
Toledo Edison Co., 7.25%, 5/1/2020	230,000	294,730
		1,683,684
Total Corporate Bonds (Cost $41,840,308)		**43,036,388**

	Principal Amount ($)(a)	Value ($)
Mortgage-Backed Securities Pass-Throughs 1.5%		
Government National Mortgage Association, 3.0%, 1/1/2042 (c) (Cost $1,035,273)	1,000,000	**1,035,781**
Asset-Backed 1.2%		
Home Equity Loans 0.5%		
CIT Group Home Equity Loan Trust, "AF6", Series 2002-1, 6.2%, 2/25/2030	82,665	82,427
Citifinancial Mortgage Securities, Inc., "AFS", Series 2003-4, 5.326%, 10/25/2033	190,000	191,821
Countrywide Home Equity Loan Trust, "2A", Series 2006-I, 0.382%**, 1/15/2037	160,346	119,255
		393,503
Miscellaneous 0.7%		
Arch Bay Asset-Backed Securities, "M", Series 2010-2, 144A, 5.0%, 4/25/2057	497,815	**494,684**
Total Asset-Backed (Cost $862,101)		**888,187**
Commercial Mortgage-Backed Securities 2.9%		
Banc of America Large Loan, Inc., "HLTN", Series 2010-HLTN, 144A, 1.992%**, 11/15/2015	561,407	531,942
CS First Boston Mortgage Securities Corp., "H", Series 2002-CKP1, 144A, 7.546%**, 12/15/2035	290,000	289,371
Greenwich Capital Commercial Funding Corp., "AM", Series 2007-GG11, 5.867%, 12/10/2049	290,000	284,440
JPMorgan Chase Commercial Mortgage Securities Corp., "A4", Series 2006-LDP7, 6.064%**, 4/15/2045	140,000	159,763
LB-UBS Commercial Mortgage Trust:		
"A3", Series 2006-C7, 5.347%, 11/15/2038	440,000	495,360
"E", Series 2005-C2, 5.498%**, 4/15/2040	300,000	120,262
Wachovia Bank Commercial Mortgage Trust, "A4", Series 2005-C22, 5.441%**, 12/15/2044	140,000	155,386
Total Commercial Mortgage-Backed Securities (Cost $2,085,123)		**2,036,524**
Collateralized Mortgage Obligations 4.0%		
Banc of America Mortgage Securities, "2A2", Series 2004-A, 2.966%**, 2/25/2034	152,192	140,427
Bear Stearns Adjustable Rate Mortgage Trust, "2A1", Series 2005-11, 3.34%**, 12/25/2035	207,145	198,839

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

	Principal Amount ($)(a)	Value ($)
Countrywide Home Loans:		
"A16", Series 2005-21, 5.0%, 10/25/2035	82,841	82,723
"2A5", Series 2004-13, 5.75%, 8/25/2034	150,108	138,281
Federal Home Loan Mortgage Corp.:		
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025	1,947,689	183,967
"JI", Series 3558, Interest Only, 4.5%, 12/15/2023	174,678	10,181
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038	584,924	82,511
Federal National Mortgage Association:		
"BI", Series 2010-13, Interest Only, 5.0%, 12/25/2038	300,963	39,032
"JS", Series 2004-59, Interest Only, 6.855%**, 4/25/2023	697,119	29,727
Government National Mortgage Association:		
"XA", Series 2009-118, 5.0%, 12/20/2039	60,805	60,818
"ID", Series 2003-79, Interest Only, 5.5%, 12/20/2031	116,753	3,798
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	1,012,993	150,216
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	991,468	145,480
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	781,554	124,548
JPMorgan Mortgage Trust, "2A1", Series 2006-A2, 5.435%**, 4/25/2036	424,506	335,912
Merrill Lynch Mortgage Investors Trust, "2A", Series 2003-A6, 2.781%**, 10/25/2033	108,437	100,347
Morgan Stanley Mortgage Loan Trust, "5A5", Series 2005-4, 5.5%, 8/25/2035	78,426	78,281
Vericrest Opportunity Loan Transferee:		
"A2", Series 2012-NL1A, 144A, 8.112%, 3/25/2049	150,000	150,888
"A2", Series 2011-NL1A, 144A, 9.077%, 12/26/2050	300,000	301,992
Washington Mutual Mortgage Pass-Through Certificates Trust, "1A1", Series 2005-AR12, 2.451%**, 10/25/2035	55,592	53,229
Wells Fargo Mortgage-Backed Securities Trust:		
"2A3",Series 2004-EE, 2.623%**, 12/25/2034	191,030	182,625
"A3", Series 2005-4, 5.0%, 4/25/2035	25,083	25,062
"B1", Series 2004-1, 5.5%, 2/25/2034	234,203	218,422
Total Collateralized Mortgage Obligations (Cost $2,815,810)		**2,837,306**

Government & Agency Obligations 15.3%

Other Government Related (d) 0.6%

		Principal Amount ($)(a)	Value ($)
JPMorgan Chase & Co., Series 3, FDIC Guaranteed, 0.712%**, 12/26/2012		232,000	232,646
Penerbangan Malaysia Bhd., 144A, 5.625%, 3/15/2016		200,000	223,198
			455,844

Sovereign Bonds 7.8%

		Principal Amount ($)(a)	Value ($)
Dominican Republic, 144A, 7.5%, 5/6/2021		100,000	106,500
Federative Republic of Brazil, 12.5%, 1/5/2016	BRL	250,000	151,388
Government of Canada, 0.75%, 5/1/2014	CAD	1,400,000	1,368,221
Republic of Argentina, 7.0%, 10/3/2015		100,000	75,669
Republic of Argentina-Inflation Linked Bond, 5.83%, 12/31/2033	ARS	464	97
Republic of Belarus, REG S, 8.75%, 8/3/2015		145,000	141,738
Republic of Colombia, 4.375%, 7/12/2021		300,000	336,900
Republic of Croatia, 144A, 6.25%, 4/27/2017		400,000	398,923
Republic of Hungary, 4.75%, 2/3/2015		100,000	96,000
Republic of Indonesia, 144A, 5.25%, 1/17/2042		250,000	261,562
Republic of Latvia, 144A, 5.25%, 2/22/2017		200,000	206,500
Republic of Lithuania, 144A, 6.125%, 3/9/2021		200,000	220,000
Republic of Peru, 5.625%, 11/18/2050		100,000	121,250
Republic of Poland, 5.0%, 3/23/2022		100,000	109,150
Republic of Serbia, REG S, 6.75%, 11/1/2024		166,667	160,000
Republic of South Africa, 4.665%, 1/17/2024		250,000	270,625
Republic of Turkey:			
6.0%, 1/14/2041		200,000	210,500
6.25%, 9/26/2022		200,000	226,500
Republic of Uruguay, 7.625%, 3/21/2036		60,000	86,400
Republic of Venezuela, 7.65%, 4/21/2025		580,000	400,200
Russian Federation, 144A, 3.25%, 4/4/2017		200,000	201,248
United Mexican States, 4.75%, 3/8/2044		200,000	215,500
Vnesheconombank, 144A, 6.025%, 7/5/2022 (c)		200,000	199,502
			5,564,373

U.S. Treasury Obligations 6.9%

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Bills:		
0.13%***, 9/6/2012 (e)	339,000	338,958
0.13%***, 9/6/2012 (e)	191,000	190,976
U.S. Treasury Notes:		
0.75%, 6/15/2014	500,000	504,141
0.875%, 12/31/2016	500,000	504,492
1.5%, 7/31/2016	1,875,000	1,942,530
2.0%, 11/15/2021	1,299,300	1,347,110

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

	Principal Amount ($)(a)	Value ($)
2.0%, 2/15/2022	50,000	51,684
		4,879,891
Total Government & Agency Obligations (Cost $10,636,621)		**10,900,108**

Loan Participations and Assignments 4.0%

Senior Loans** 2.3%

	Principal Amount ($)(a)	Value ($)
Buffets, Inc., Letter of Credit, First Lien, LIBOR plus 9.25%, 4/22/2015*	12,939	6,017
Charter Communications Operating LLC, Term Loan C, 3.5%, 9/6/2016	158,571	157,800
Clear Channel Communication, Inc., Term Loan B, 3.895%, 1/28/2016	45,318	36,321
Cumulus Media Holdings, Inc., Second Lien Term Loan, 7.5%, 9/16/2019	50,000	50,532
Dunkin' Brands, Inc., New Term Loan B2, 4.0%, 11/23/2017	68,244	67,490
First Data Corp., Term Loan B, LIBOR plus 4.0%, 3/23/2018	450,000	414,029
Kabel Deutschland GmbH, Term Loan F, 4.25%, 2/1/2019	385,000	383,196
Tomkins LLC, New Term Loan B, 4.25%, 9/29/2016	448,967	449,584
Tribune Co., Term Loan B, LIBOR plus 3.0%, 6/4/2014*	88,875	59,213
		1,624,182

Sovereign Loans 1.7%

	Principal Amount ($)(a)	Value ($)
Bank of Moscow, 144A, 6.699%, 3/11/2015	250,000	258,750
OAO Novatek, 144A, 5.326%, 2/3/2016	200,000	208,024
Russian Railways, 5.739%, 4/3/2017	145,000	154,777
Vimpel Communications, 144A, 7.748%, 2/2/2021	200,000	193,148
Vnesheconombank, 144A, 5.375%, 2/13/2017	200,000	206,968
VTB Bank OJSC, 144A, 6.0%, 4/12/2017	200,000	203,000
		1,224,667
Total Loan Participations and Assignments (Cost $2,869,352)		**2,848,849**

Municipal Bonds and Notes 1.4%

	Principal Amount ($)(a)	Value ($)
Chicago, IL, Airport Revenue, O'Hare International Airport, Series B, 6.0%, 1/1/2041	145,000	170,012
Massachusetts, State School Building Authority, Sales Tax Revenue, Qualified School Construction Bond, Series A, 4.885%, 7/15/2028	300,000	350,271
Orlando & Orange County, FL, Expressway Authority Revenue, Series C, 5.0%, 7/1/2040	145,000	157,487
Port Authority of New York & New Jersey, 4.926%, 10/1/2051	260,000	289,377
Total Municipal Bonds and Notes (Cost $851,808)		**967,147**

Convertible Bonds 0.2%

Consumer Discretionary

	Principal Amount ($)(a)	Value ($)
Group 1 Automotive, Inc., 3.0%, 3/15/2020	65,000	89,537
Sonic Automotive, Inc., 5.0%, 10/1/2029	25,000	32,563
Total Convertible Bonds (Cost $90,036)		**122,100**

Preferred Securities 0.3%

Financials 0.2%

	Principal Amount ($)(a)	Value ($)
USB Capital XIII Trust, 6.625%, 12/15/2039	145,000	**146,185**

Materials 0.1%

	Principal Amount ($)(a)	Value ($)
Hercules, Inc., 6.5%, 6/30/2029	95,000	**77,900**
Total Preferred Securities (Cost $202,422)		**224,085**

Other Investments 0.0%

Consumer Discretionary

	Units	Value ($)
AOT Bedding Super Holdings LLC* (f) (Cost $4,000)	4	**3,870**

Common Stocks 0.0%

Consumer Discretionary 0.0%

	Shares	Value ($)
Buffets Restaurants Holdings, Inc.*	2,318	0
Postmedia Network Canada Corp.*	1,248	968
Trump Entertainment Resorts, Inc.*	6	0
Vertis Holdings, Inc.*	63	1
		969

Industrials 0.0%

	Shares	Value ($)
Congoleum Corp.*	2,500	0
Quad Graphics, Inc.	6	87
		87

Materials 0.0%

	Shares	Value ($)
GEO Specialty Chemicals, Inc.*	2,058	0
Wolverine Tube, Inc.*	778	19,053
		19,053
Total Common Stocks (Cost $53,987)		**20,109**

Warrants 0.0%

Consumer Discretionary 0.0%

	Shares	Value ($)
Reader's Digest Association, Inc., Expiration Date 2/19/2014*	159	**27**

Materials 0.0%

	Shares	Value ($)
Hercules Trust II, Expiration Date 3/31/2029*	85	**680**
Total Warrants (Cost $17,432)		**707**

Exchange-Traded Fund 0.1%

	Shares	Value ($)
SPDR Barclays Capital Convertible Securities (Cost $51,564)	1,300	**48,828**

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

	Contracts	Value ($)
Call Options Purchased 0.3%		
Options on Exchange-Traded Futures Contracts 0.0%		
10 Year U.S. Treasury Note Future, Expiration Date 8/24/2012, Strike Price $134.0	5	**3,594**

	Contract Amount	Value ($)
Options on Interest Rate Swap Contracts 0.3%		
Fixed Rate — 3.583% – Floating — LIBOR, Swap Expiration Date 5/11/2026, Option Expiration Date 5/9/2016	1,400,000	49,814
Fixed Rate — 3.635% – Floating — LIBOR, Swap Expiration Date 4/27/2026, Option Expiration Date 4/25/2016	1,300,000	44,254
Fixed Rate — 3.72% – Floating — LIBOR, Swap Expiration Date 4/22/2026, Option Expiration Date 4/20/2016	1,300,000	41,809
Fixed Rate — 4.19% – Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017	1,500,000	45,293
Fixed Rate — 4.32% – Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017	1,400,000	39,369
		220,539
Total Call Options Purchased (Cost $326,882)		**224,133**

	Contracts	Value ($)
Put Options Purchased 0.2%		
Options on Exchange-Traded Futures Contracts 0.0%		
10 Year U.S. Treasury Note Future, Expiration Date 8/24/2012, Strike Price $133.0	10	**8,437**

	Contract Amount	Value ($)
Options on Interest Rate Swap Contracts 0.2%		
Fixed Rate — 2.19% – Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017	1,500,000	53,801
Fixed Rate — 2.32% – Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017	1,400,000	56,554
		110,355
Total Put Options Purchased (Cost $107,970)		**118,792**

	Shares	Value ($)
Securities Lending Collateral 4.1%		
Daily Assets Fund Institutional, 0.24% (g) (h) (Cost $2,947,696)	2,947,696	**2,947,696**
Cash Equivalents 9.7%		
Central Cash Management Fund, 0.14% (g) (Cost $6,871,227)	6,871,227	**6,871,227**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $73,669,612)†	105.7	**75,131,837**
Other Assets and Liabilities, Net	(5.7)	**(4,020,154)**
Net Assets	100.0	**71,111,683**

The following table represents bonds and senior loans that are in default:

Securities	Coupon	Maturity Date	Principal Amount ($)		Acquisition Cost ($)	Value ($)
Buffets, Inc.*	LIBOR plus 9.25%	4/22/2015	12,939	USD	12,456	6,017
ERC Ireland Preferred Equity Ltd.*	7.69%	2/15/2017	88,319	EUR	120,275	34
Fontainebleau Las Vegas Holdings LLC*	11.0%	6/15/2015	65,000	USD	65,225	41
Hellas Telecommunications Finance SCA*	8.985%	7/15/2015	109,187	EUR	32,169	83
Tribune Co.*	LIBOR plus 3.0%	6/4/2014	88,875	USD	88,819	59,213
					318,944	**65,388**

* Non-income producing security.

** Floating rate securities' yields vary with a designated market index or market rate, such as the coupon-equivalent of the U.S. Treasury Bill rate. These securities are shown at their current rate as of June 30, 2012.

*** Annualized yield at time of purchase; not a coupon rate.

† The cost for federal income tax purposes was $73,843,359. At June 30, 2012, net unrealized appreciation for all securities based on tax cost was $1,288,478. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $2,715,781 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,427,303.

(a) Principal amount stated in U.S. dollars unless otherwise noted.

(b) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2012 amounted to $2,850,190, which is 4.0% of net assets.

(c) When-issued or delayed delivery security included.

(d) Government-backed debt issued by financial companies or government-sponsored enterprises.

(e) At June 30, 2012, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

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

(f) The Fund 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 Fund 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 Fund's decision to sell a restricted security and the point at which the Fund is permitted or able to sell such security, the Fund 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 Fund. The future value of these securities is uncertain and there may be changes in the estimated value of these securities.

Schedule of Restricted Securities	Acquisition Date	Cost ($)	Value ($)	Value as % of Net Assets
AOT Bedding Super Holdings LLC*	June 2010	4,000	3,870	0.01

(g) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(h) Represents collateral held in connection with securities lending. Income earned by the Fund is net of borrower rebates.

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.

FDIC: Federal Deposit Insurance Corp.

Interest Only: 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 of the pool of underlying mortgages.

LIBOR: London Interbank Offered Rate

PIK: Denotes that all or a portion of the income is paid in-kind in the form of additional principal.

REG S: Securities sold under Regulation S may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933.

REIT: Real Estate Investment Trust

SPDR: Standard & Poor's Depositary Receipt

At June 30, 2012, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year Australian Treasury Bond	AUD	9/17/2012	5	642,030	(118)
10 Year Canadian Government Bond	CAD	9/19/2012	16	2,175,818	2,276
10 Year Japanese Government Bond	JPY	9/10/2012	1	1,797,586	2,237
Federal Republic of Germany Euro-Bund	EUR	9/6/2012	40	7,132,354	(19,861)
Federal Republic of Germany Euro-Schatz	EUR	9/6/2012	22	3,076,289	(6,879)
United Kingdom Long Gilt Bond	GBP	9/26/2012	16	2,984,708	(6,764)
Total net unrealized depreciation					**(29,109)**

At June 30, 2012, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year Canadian Government Bond	CAD	9/19/2012	6	815,932	(3,120)
10 Year U.S. Treasury Note	USD	9/19/2012	103	13,737,625	(9,053)
2 Year U.S. Treasury Note	USD	9/28/2012	57	12,550,688	8,660
United Kingdom Long Gilt Bond	GBP	9/26/2012	2	373,089	(551)
Total net unrealized depreciation					**(4,064)**

At June 30, 2012, open written option contracts were as follows:

Options on Exchange-Traded Futures Contracts	Contract Amount	Expiration Date	Strike Price ($)	Premiums Received ($)	Value ($) (i)
Call Options					
10 Year U.S. Treasury Note Future	5	8/24/2012	136.0	614	(938)
Put Options					
10 Year U.S. Treasury Note Future	20	8/24/2012	131.0	8,394	(5,625)
Total				**9,008**	**(6,563)**

(i) Unrealized appreciation on written options on exchange-traded futures contracts at June 30, 2012 was $2,445.

Options on Interest Rate Swap Contracts	Swap Effective/ Expiration Date	Contract Amount	Option Expiration Date	Premiums Received ($)	Value ($) (j)
Call Options					
Fixed — 3.19% – Floating — LIBOR	2/3/2017 2/3/2027	700,000	2/1/2017	50,400	(37,309)
Fixed — 3.32% – Floating — LIBOR	2/3/2017 2/3/2027	700,000	2/1/2017	50,631	(34,613)
Fixed — 4.083% – Floating — LIBOR	5/11/2016 5/11/2026	1,400,000	5/9/2016	47,600	(36,666)
Fixed — 4.135% – Floating — LIBOR	4/27/2016 4/27/2026	1,300,000	4/25/2016	48,100	(32,545)
Fixed — 4.22% – Floating — LIBOR	4/22/2016 4/22/2026	1,300,000	4/20/2016	46,345	(30,789)
Total Call Options				**243,076**	**(171,922)**
Put Options					
Fixed — 1.9% – Floating — LIBOR	4/24/2013 4/24/2023	1,300,000	4/22/2013	17,810	(29,584)
Fixed — 2.07% – Floating — LIBOR	5/10/2013 5/10/2043	1,400,000	5/8/2013	22,400	(36,428)
Fixed — 2.09% – Floating — LIBOR	4/25/2013 4/25/2043	1,300,000	4/23/2013	24,440	(33,847)
Fixed — 3.19% – Floating — LIBOR	2/3/2017 2/3/2027	700,000	2/1/2017	50,400	(55,455)
Fixed — 3.32% – Floating — LIBOR	2/3/2017 2/3/2027	700,000	2/1/2017	50,631	(60,371)
Total Put Options				**165,681**	**(215,685)**
Total				**408,757**	**(387,607)**

(j) Unrealized appreciation on written options on interest rate swap contracts at June 30, 2012 was $21,150.

At June 30, 2012, open credit default swap contracts sold were as follows:

Effective/ Expiration Date	Notional Amount ($) (l)	Fixed Cash Flows Received	Underlying Debt Obligation/Quality Rating (k)	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Appreciation/ (Depreciation) ($)
9/21/2009 12/20/2014	290,000[1]	1.0%	Berkshire Hathaway Finance Corp., 4.625%, 10/15/2013, AA+	821	(7,340)	8,161
12/20/2011 3/20/2017	60,000[2]	5.0%	CIT Group, Inc., 5.50%, 2/15/2019, BB-	3,899	2,388	1,511
6/21/2010 9/20/2013	70,000[3]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BB+	3,562	858	2,704
6/21/2010 9/20/2015	90,000[4]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BB+	8,105	(1,605)	9,710
12/20/2010 3/20/2016	290,000[5]	1.0%	Freeport-McMoRan Copper & Gold, Inc., 3.55%, 3/1/2022, BBB	(5,484)	(100)	(5,384)
3/21/2011 6/20/2016	120,000[1]	5.0%	HCA, Inc., 6.375%, 1/15/2015, B–	4,142	3,568	574
Total net unrealized appreciation						**17,276**

(k) The quality ratings represent the higher of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings and are unaudited.

(l) The maximum potential amount of future undiscounted payments that the Fund could be required to make under a credit default swap contract would be the notional amount of the contract. These potential amounts would be partially offset by any recovery values of the referenced debt obligation or net amounts received from the settlement of buy protection credit default swap contracts entered into by the Fund for the same referenced debt obligation.

At June 30, 2012, open interest rate swap contracts were as follows:

Effective/ Expiration Date	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Appreciation/ (Depreciation) ($)
4/13/2012 4/13/2016	1,500,000[6]	Floating — LIBOR	Fixed — 1.22%	29,181	—	29,181
10/1/2012 10/1/2021	2,000,000[7]	Fixed — 2.375%	Floating — LIBOR	(110,095)	528	(110,623)
10/1/2012 10/1/2042	1,200,000[7]	Floating — LIBOR	Fixed — 2.96%	108,330	—	108,330
Total net unrealized appreciation						**26,888**

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

Counterparties:

1 JPMorgan Chase Securities, Inc.
2 Credit Suisse
3 Citigroup, Inc.
4 Bank of America, N.A.
5 Morgan Stanley
6 BNP Paribas
7 The Goldman Sachs & Co.

At June 30, 2012, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	746,569	EUR	600,000	7/6/2012	13,528	Bank of America
EUR	750,000	USD	981,644	7/11/2012	31,485	UBS AG
USD	1,262,122	NZD	1,600,000	7/16/2012	20,930	Bank of America
CHF	1,561,264	EUR	1,300,000	7/16/2012	479	Bank of America
USD	1,759,415	EUR	1,400,000	7/23/2012	14,384	UBS AG
EUR	1,400,000	USD	1,775,838	7/23/2012	2,039	Bank of America
USD	677,416	NZD	850,000	7/25/2012	1,812	UBS AG
USD	375,413	AUD	370,000	7/25/2012	2,356	UBS AG
NOK	410,000	USD	69,236	7/25/2012	376	UBS AG
CHF	250,000	USD	263,897	7/25/2012	348	UBS AG
GBP	290,000	USD	455,242	7/25/2012	1,087	UBS AG
USD	999,131	EUR	800,000	7/27/2012	14,500	Bank of America
USD	1,390,021	BRL	2,900,000	7/30/2012	45,031	BNP Paribas
USD	712,973	TRY	1,300,000	8/2/2012	1,120	UBS AG
Total unrealized appreciation					**149,475**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
EUR	600,000	USD	752,295	7/6/2012	(7,803)	UBS AG
AUD	515,000	USD	525,094	7/11/2012	(1,738)	Morgan Stanley
NZD	1,600,000	USD	1,236,904	7/16/2012	(46,147)	BNP Paribas
SEK	670,000	USD	95,925	7/25/2012	(839)	UBS AG
CAD	60,000	USD	58,728	7/25/2012	(172)	UBS AG
JPY	19,130,000	USD	239,086	7/25/2012	(321)	UBS AG
EUR	450,000	USD	569,580	7/25/2012	(11)	UBS AG
BRL	2,900,000	USD	1,381,281	7/30/2012	(53,770)	Nomura International PLC
USD	1,388,780	JPY	110,000,000	8/2/2012	(10,084)	Nomura International PLC
JPY	110,000,000	USD	1,373,952	8/2/2012	(4,744)	Nomura International PLC
EUR	1,500	USD	1,867	8/2/2012	(32)	JPMorgan Chase Securities, Inc.
EUR	327,700	USD	413,084	8/2/2012	(1,731)	Citigroup, Inc.
EUR	800,000	USD	1,012,797	8/2/2012	(883)	UBS AG
USD	671,286	MXN	9,000,000	8/3/2012	(2,300)	Bank of America
Total unrealized depreciation					**(130,575)**	

Currency Abbreviations

ARS	Argentine Peso	EUR	Euro	NZD	New Zealand Dollar
AUD	Australian Dollar	GBP	British Pound	SEK	Swedish Krona
BRL	Brazilian Real	JPY	Japanese Yen	TRY	Turkish Lira
CAD	Canadian Dollar	MXN	Mexican Peso	USD	United States Dollar
CHF	Swiss Franc	NOK	Norwegian Krone		

For information on the Fund's policy and additional disclosures regarding options purchased, futures contracts, credit default swap contracts, interest rate swap contracts, forward foreign currency exchange contracts and written option contracts please refer to Note B in the accompanying Notes to Financial Statements.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2012 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed Income Investments (m)				
Corporate Bonds	$ —	$ 42,791,486	$ 244,902	$ 43,036,388
Mortgage-Backed Securities Pass-Throughs	—	1,035,781	—	1,035,781
Asset-Backed	—	888,187	—	888,187
Commercial Mortgage-Backed Securities	—	2,036,524	—	2,036,524
Collateralized Mortgage Obligations	—	2,837,306	—	2,837,306
Government & Agency Obligations	—	10,900,108	—	10,900,108
Loan Participations and Assignments	—	2,848,849	—	2,848,849
Municipal Bonds and Notes	—	967,147	—	967,147
Convertible Bonds	—	122,100	—	122,100
Preferred Securities	—	224,085	—	224,085
Other Investments	—	—	3,870	3,870
Common Stocks (m)	1,055	—	19,054	20,109
Warrants (m)	—	—	707	707
Exchange-Traded Fund	48,828	—	—	48,828
Short-Term Investments (m)	9,818,923	—	—	9,818,923
Derivatives (n)	25,204	640,540	—	665,744
Total	**$ 9,894,010**	**$ 65,292,113**	**$ 268,533**	**$ 75,454,656**

Liabilities				
Derivatives (n)	$ (52,909)	$ (634,189)	$ —	$ (687,098)
Total	**$ (52,909)**	**$ (634,189)**	**$ —**	**$ (687,098)**

There have been no transfers between Level 1 and Level 2 fair value measurements during the period ended June 30, 2012.

(m) See Investment Portfolio for additional detailed categorizations.

(n) Derivatives include value of options purchased, written options, at value, and unrealized appreciation (depreciation) on futures contracts, credit default swap contracts, interest rate swap contracts and forward foreign currency exchange contracts.

Statement of Assets and Liabilities

as of June 30, 2012 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $63,850,689) — including $2,850,190 of securities loaned	$	65,312,914
Investment in Daily Assets Fund Institutional (cost $2,947,696)*		2,947,696
Investment in Central Cash Management Fund (cost $6,871,227)		6,871,227
Total investments in securities, at value (cost $73,669,612)		75,131,837
Cash		40,776
Foreign currency, at value (cost $228,937)		231,042
Deposit with broker for futures contracts		126,961
Receivable for investments sold		267,959
Receivable for investments sold — when-issued/delayed delivery securities		1,039,625
Interest receivable		1,006,474
Receivable for variation margin on futures contracts		42,056
Unrealized appreciation on swap contracts		160,171
Unrealized appreciation on forward foreign currency exchange contracts		149,475
Upfront payments paid on swap contracts		7,342
Total assets		78,203,718
Liabilities		
Payable upon return of securities loaned		2,947,696
Payable for investments purchased		686,217
Payable for investments purchased — when-issued/delayed delivery securities		2,665,455
Payable for Fund shares redeemed		66,016
Options written, at value (premium received $417,765)		394,170
Unrealized depreciation on swap contracts		116,007
Unrealized depreciation on forward foreign currency exchange contracts		130,575
Upfront payments received on swap contracts		9,045
Accrued management fee		19,558
Other accrued expenses and payables		57,296
Total liabilities		7,092,035
Net assets, at value	**$**	**71,111,683**
Net Assets Consist of		
Undistributed net investment income	$	1,307,243
Net unrealized appreciation (depreciation) on:		
Investments		1,462,225
Swap contracts		44,164
Futures		(33,173)
Foreign currency		29,890
Written options		23,595
Accumulated net realized gain (loss)		1,126,182
Paid-in-capital		67,151,557
Net assets, at value	**$**	**71,111,683**
Class A		
Net Asset Value, offering and redemption price per share ($71,111,683 ÷ 6,034,255 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.78**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2012 (Unaudited)

Investment Income		
Income:		
Interest	$	2,016,791
Dividends		989
Income distributions — Central Cash Management Fund		2,967
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		5,874
Total income		2,026,621
Expenses:		
Management fee		192,668
Administration fee		35,031
Services to shareholders		522
Custodian fee		32,271
Audit and tax fees		32,913
Legal fees		7,316
Reports to shareholders		16,983
Trustees' fees and expenses		2,565
Interest expense		2,145
Other		22,206
Total expenses before expense reductions		344,620
Expense reductions		(69,139)
Total expenses after expense reductions		275,481
Net investment income (loss)		**1,751,140**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		663,996
Swap contracts		(45,742)
Futures		283,931
Written options		8,794
Foreign currency		384,773
		1,295,752
Change in net unrealized appreciation (depreciation) on:		
Investments		1,295,051
Swap contracts		(13,159)
Futures		(60,690)
Written options		19,262
Foreign currency		(389,525)
		850,939
Net gain (loss)		**2,146,691**
Net increase (decrease) in net assets resulting from operations	**$**	**3,897,831**

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, 2012 (Unaudited)	Year Ended December 31, 2011
Operations:		
Net investment income	$ 1,751,140	$ 3,881,224
Net realized gain (loss)	1,295,752	920,963
Change in net unrealized appreciation (depreciation)	850,939	(1,145,151)
Net increase (decrease) in net assets resulting from operations	3,897,831	3,657,036
Distributions to shareholders from:		
Net investment income:		
Class A	(4,311,037)	(4,074,552)
Net realized gains:		
Class A	(143,246)	—
Total distributions	(4,454,283)	(4,074,552)
Fund share transactions:		
Class A		
Proceeds from shares sold	5,046,969	6,939,450
Reinvestment of distributions	4,454,283	4,074,552
Payments for shares redeemed	(6,935,883)	(17,200,574)
Net increase (decrease) in net assets from Class A share transactions	2,565,369	(6,186,572)
Increase (decrease) in net assets	2,008,917	(6,604,088)
Net assets at beginning of period	69,102,766	75,706,854
Net assets at end of period (including undistributed net investment income of $1,307,243 and $3,867,140, respectively)	**$ 71,111,683**	**$ 69,102,766**

Other Information		
Class A		
Shares outstanding at beginning of period	5,808,640	6,329,747
Shares sold	421,135	592,646
Shares issued to shareholders in reinvestment of distributions	381,360	348,849
Shares redeemed	(576,880)	(1,462,602)
Net increase (decrease) in Class A shares	225,615	(521,107)
Shares outstanding at end of period	**6,034,255**	**5,808,640**

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

Financial Highlights

Class A	Six Months Ended 6/30/12 (Unaudited)	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data						
Net asset value, beginning of period	**$11.90**	**$11.96**	**$11.61**	**$10.03**	**$11.70**	**$11.80**
Income (loss) from investment operations:						
Net investment income[a]	.30	.63	.66	.63	.55	.63
Net realized and unrealized gain (loss)	.37	(.01)	.47	1.50	(1.38)	(.01)
Total from investment operations	.67	.62	1.13	2.13	(.83)	.62
Less distributions from:						
Net investment income	(.76)	(.68)	(.78)	(.55)	(.69)	(.72)
Net realized gains	(.03)	—	—	—	(.15)	—
Total distributions	(.79)	(.68)	(.78)	(.55)	(.84)	(.72)
Net asset value, end of period	**$11.78**	**$11.90**	**$11.96**	**$11.61**	**$10.03**	**$11.70**
Total Return (%)[b]	5.63**	5.31	10.05	22.73	(7.75)	5.43
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	71	69	76	74	73	100
Ratio of expenses before expense reductions (%)	.98*	.99	.95	.86	.89	.84
Ratio of expenses after expense reductions (%)	.79*	.79	.86	.80	.87	.83
Ratio of net investment income (%)	5.00*	5.38	5.62	5.96	5.06	5.50
Portfolio turnover rate (%)	62**	144	167	370	234	147

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

* Annualized

** Not annualized

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

DWS Unconstrained Income VIP (formerly DWS Strategic Income VIP) (the "Fund") is a diversified series of DWS Variable Series II (the "Trust"), which is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company organized as a Massachusetts business trust.

The Fund'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 Fund in the preparation of its financial statements.

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.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Debt securities and loan participations and assignments are valued at prices supplied by independent pricing services approved by the Fund's Board. 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 one or more broker-dealers. 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. These securities are generally categorized as Level 2.

Equity securities and exchange-traded funds ("ETFs") are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. Securities or ETFs 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.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Futures contracts are generally valued at the settlement prices established each day on the exchange on which they are traded and are categorized as Level 1.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and are categorized as Level 2.

Swap contracts are valued daily based upon prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer. Swap contracts are generally categorized as Level 2.

Exchange-traded options are 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 or asked price are available. Exchange-traded options are categorized as Level 1. Over-the-counter written or purchased options are valued at the price provided by the broker-dealer with which the option was traded and are generally categorized as Level 2.

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 Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market

in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. 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 acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. 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 gain/appreciation and loss/depreciation on investments.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the issuer of securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Loan Participations and Assignments. Loan participations and assignments are portions of loans originated by banks and sold in pieces to investors. These U.S. dollar-denominated fixed and floating rate loans ("Loans") in which the Fund invests, are arranged between the borrower and one or more financial institutions ("Lenders"). These Loans may take the form of Senior Loans, which are corporate obligations often issued in connection with recapitalizations, acquisitions, leveraged buy-outs and refinancings, and Sovereign Loans, which are debt instruments between a foreign sovereign entity and one or more financial institutions. The Fund 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 Fund having a contractual relationship only with the Lender, not with the borrower. The Fund 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 Fund generally has no right to enforce compliance by the borrower with the terms of the loan agreement relating to the Loan, or any rights of set-off against the borrower, and the Fund will not benefit directly from any collateral supporting the Loan in which it has purchased the Participation. As a result, the Fund assumes the credit risk of both the borrower and the Lender that is selling the Participation. Assignments typically result in the Fund having a direct contractual relationship with the borrower, and the Fund may enforce compliance by the borrower with the terms of the loan agreement. Senior loans held by the Fund generally are in the form of Assignments but the Fund may also invest in Participations. All Loan Participations and Assignments involve interest rate risk, liquidity risk and credit risk, including the potential default or insolvency of the borrower.

When-Issued/Delayed Delivery Securities. The Fund may purchase or sell securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the Fund enters into a commitment to purchase or sell a security, the transaction is recorded and the value of the transaction 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. At the time the Fund 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 transactions 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. The Fund's 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 income to its shareholders.

Additionally, based on the Fund's understanding of the tax rules and rates related to income, gains and transactions for the foreign jurisdictions in which it invests, the Fund will provide for foreign taxes, and where appropriate, deferred foreign taxes.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. Distributions of net investment income of the Fund, if any, are made annually. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the Fund if not distributed and, therefore, will be distributed to shareholders at least annually. The Fund may also make additional distributions for tax purposes if necessary.

The timing and characterization of certain income and capital gain 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 foreign denominated investments, forward currency contracts, futures contracts, swap contracts 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 Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

The tax character of current year distributions will be determined at the end of the current fiscal year.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

Contingencies. In the normal course of business, the Fund may enter into contracts with service providers that contain general 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 been made. However, based on experience, the Fund expects 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. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes for the Fund, with the exception of securities in default of principal.

B. Derivative Instruments

Interest Rate Swap Contracts. For the six months ended June 30, 2012, the Fund entered into interest rate swap transactions to gain exposure to different parts of the yield curve while managing overall duration and to enhance potential gains. The value of the Fund's underlying bond investments is subject to interest rate risk. As interest rates increase, the value of the Fund's fixed rate bonds may fall. The longer the duration of the Fund's securities, the more sensitive the Fund will be to interest rate changes. To help mitigate this interest rate risk, the Fund invests in interest rate swap contracts to reduce the duration of the Investment Portfolio. The use of interest rate swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In an interest rate swap, the Fund agrees to pay to the other party to the interest rate swap (which is known as the "counterparty") a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund a variable rate payment, or the Fund agrees to receive from the counterparty a fixed rate payment in exchange for the counterparty agreeing to receive from the Fund a variable rate payment. In addition, both the Fund and counterparty may agree to exchange variable rate payments based on different indices. The payment obligations are based on the notional amount of the swap. Certain risks may arise when entering into swap transactions including counterparty default, liquidity or unfavorable changes in interest rates. In connection with these agreements, securities and or cash may be identified as collateral in accordance with the terms of the swap agreements to provide assets of value and recourse in the event of default. The maximum counterparty credit risk is the net present value of the cash flows to be received from or paid to the counterparty over the term of the interest rate swap contract, to the extent that this amount is beneficial to the Fund, in addition to any related collateral posted to the counterparty by the Fund. This risk may be partially reduced by a master netting arrangement between the Fund and the counterparty. The value of the swap is adjusted daily and the change in value, if any, is recorded as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Payments received or made at the end of the measurement period are recorded as realized gain or loss in the Statement of Operations.

A summary of the open interest rate swap contracts as of June 30, 2012 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $4,700,000 to $9,390,000.

Credit Default Swap Contracts. A credit default swap is a contract between a buyer and a seller of protection against pre-defined credit events for the reference entity. For the six months ended June 30, 2012, the Fund sold credit default swap contracts to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer. As a seller in the credit default swap contract, the Fund is required to pay the par (or other agreed-upon) value of the referenced entity to the counterparty with the occurrence of a credit event by a third party, such as a U.S. or foreign corporate issuer, on the reference entity, which would likely result in a loss to the Fund. In return, the Fund receives from the counterparty a periodic stream of payments over the term of the contract provided that no credit event has occurred. If no credit event occurs, the Fund keeps the stream of payments with no payment obligations. The Fund may also buy credit default swap contracts in order to hedge against the risk of a credit event on debt securities, in which case the Fund functions as the counterparty referenced above. This involves the risk that the contract may expire worthless. It also involves counterparty risk that the seller may fail to satisfy its payment obligations to the Fund with the occurrence of a credit event. When the Fund 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 reference entities for all outstanding credit default swap contracts sold by the Fund.

The value of the credit default swap is adjusted daily and the change in value, if any, is recorded daily as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Under the terms of the credit default swap contracts, the Fund receives or makes quarterly payments based on a specified interest rate on a fixed notional amount. These payments are recorded as a realized gain or loss in 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 in the Statement of Operations.

A summary of the open credit default swap contracts as of June 30, 2012 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the investment in credit default swap contracts sold had a total notional value generally indicative of a range from $860,000 to $920,000.

Total Return Swap Contracts. Total return swaps involve commitments to pay interest in exchange for a market-linked return based on a notional amount. For the six months ended June 30, 2012, the Fund entered into total return swap transactions to enhance potential gains. To the extent the total return of the reference security or index underlying the total return swap exceeds or falls short of the offsetting interest rate obligation, the Fund will receive a payment or make a payment to the counterparty, respectively. Certain risks may arise when entering into swap transactions including counterparty default, liquidity or unfavorable changes in the value of underlying reference security or index. The value of the swap is adjusted daily and the change in value, if any, is recorded as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Payments received or made at the end of each measurement period are recorded as realized gain or loss in the Statement of Operations.

There were no open total return swap contracts as of June 30, 2012. For the six months ended June 30, 2012, the investment in total return swap contracts had a total notional amount generally indicative of a range from $0 to $3,900,000.

Options. An option contract is a contract in which the writer (seller) of the option grants the buyer of the option, upon payment of a premium, 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 Fund if the option is exercised. For the six months ended June 30, 2012, the Fund entered into options on interest rate futures and on interest rates swaps in order to hedge against potential adverse interest rate movements of portfolio assets.

If the Fund writes a covered call option, the Fund 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 Fund 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 Fund'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 Fund'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.

A summary of the open purchased option contracts as of June 30, 2012 is included in the Fund's Investment Portfolio. A summary of open written option contracts is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the investment in written option contracts had a total value generally indicative of a range from approximately $8,000 to $394,000, and purchased option contracts had a total value generally indicative of a range from approximately $15,000 to $343,000.

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). For the six months ended June 30, 2012, the Fund entered into interest rate futures to gain exposure to different parts of the yield curve while managing overall duration. In addition, the Fund seeks to enhance returns by employing a global tactical asset allocation overlay strategy. The Fund enters into futures contracts on global bonds, including indices, as part of its global tactical asset allocation overlay strategy. For the six months ended June 30, 2012, as part of this strategy, the Fund used futures contracts to attempt to take advantage of inefficiencies within the global bond markets.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange-traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts disclosed in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of June 30, 2012 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $4,511,000 to $17,809,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $10,705,000 to $27,477,000.

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. For the six months ended June 30, 2012, the Fund entered into forward currency contracts in order to hedge against anticipated currency market changes and for non-hedging purposes to seek to enhance potential gains. In addition, the Fund seeks to enhance returns by employing a global tactical asset allocation overlay strategy. For the six months ended June 30, 2012, as part of this strategy, the Fund used forward currency contracts to gain exposure to changes in the value of foreign currencies to attempt to take advantage of inefficiencies within the currency markets.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and unrealized gain (loss) is recorded daily. On the settlement date of the forward currency contract, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it was closed. Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. The maximum counterparty credit risk to the Fund is measured by the unrealized gain on appreciated contracts. Additionally, when utilizing forward currency contracts to hedge, the Fund gives up the opportunity to profit from favorable exchange rate movements during the term of the contract.

A summary of the open forward currency contracts as of June 30, 2012 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2012, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $11,206,000 to $24,173,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $9,983,000 to $21,423,000. The investment in forward currency contracts long vs. other foreign currencies sold had a total contract value generally indicative of a range from $0 to approximately $2,656,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2012 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Purchased Options**	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a) (b)	$ 342,925	$ —	$ 137,511	$ 13,173	$ 493,609
Credit Contracts (a)	—	—	22,660	—	22,660
Foreign Exchange Contracts (c)	—	149,475	—	—	149,475
	$ 342,925	**$ 149,475**	**$ 160,171**	**$ 13,173**	**$ 665,744**

Each of the above derivatives is located in the following Statement of Assets and Liabilities accounts:

(a) Investments in securities, at value (includes purchased options) and unrealized appreciation on swap contracts

(b) Includes cumulative appreciation of futures contracts as disclosed in the Investment Portfolio. Unsettled variation margin is disclosed separately within the Statement of Assets and Liabilities.

(c) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivatives	**Written Options**	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a) (b)	$ (394,170)	$ —	$ (110,623)	$ (46,346)	$ (551,139)
Credit Contracts (a)	—	—	(5,384)	—	(5,384)
Foreign Exchange Contracts (c)	—	(130,575)	—	—	(130,575)
	$ (394,170)	**$ (130,575)**	**$ (116,007)**	**$ (46,346)**	**$ (687,098)**

Each of the above derivatives is located in the following Statement of Assets and Liabilities accounts:

(a) Options written, at value and unrealized depreciation on swap contracts

(b) Includes cumulative depreciation of futures contracts as disclosed in the Investment Portfolio. Unsettled variation margin is disclosed separately within the Statement of Assets and Liabilities.

(c) Unrealized depreciation on forward foreign currency exchange contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2012 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Purchased Options**	**Written Options**	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ (10,398)	$ 8,794	$ —	$ (56,616)	$ 283,931	$ 225,711
Credit Contracts (a)	—	—	—	10,874	—	10,874
Foreign Exchange Contracts (b)	—	—	366,997	—	—	366,997
	$ (10,398)	**$ 8,794**	**$ 366,997**	**$ (45,742)**	**$ 283,931**	**$ 603,582**

Each of the above derivatives is located in the following Statement of Operations accounts:

(a) Net realized gain (loss) from investments (includes purchased options), written options, swap contracts and futures, respectively

(b) Net realized gain (loss) from foreign currency (Statement of Operations includes both forward currency contracts and foreign currency transactions)

Change in Net Unrealized Appreciation (Depreciation)	**Purchased Options**	**Written Options**	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ (84,384)	$ 19,262	$ —	$ (31,074)	$ (60,690)	$ (156,886)
Credit Contracts (a)	—	—	—	17,915	—	17,915
Foreign Exchange Contracts (b)	—	—	(393,387)	—	—	(393,387)
	$ (84,384)	**$ 19,262**	**$ (393,387)**	**$ (13,159)**	**$ (60,690)**	**$ (532,358)**

Each of the above derivatives is located in the following Statement of Operations accounts:

(a) Change in net unrealized appreciation (depreciation) on investments (includes purchased options), written options, swap contracts and futures, respectively

(b) Change in net unrealized appreciation (depreciation) on foreign currency (Statement of Operations includes both forward currency contracts and foreign currency transactions)

C. Purchases and Sales of Securities

During the six months ended June 30, 2012, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $37,480,958 and $37,850,796, respectively. Purchases and sales of U.S. Treasury obligations aggregated $3,695,114 and $1,960,666, respectively.

For the six months ended June 30, 2012, transactions for written options on futures contracts and interest rate swap contracts were as follows:

	Contracts/ Contract Amount	Premium
Outstanding, beginning of period	100	$ 12,458
Options expired	(100)	(12,458)
Options written	10,800,030	420,042
Options closed	(30)	(2,277)
Outstanding, end of period	**10,800,000**	**$ 417,765**

D. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund 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 Fund or delegates such responsibility to the Fund's subadvisor.

QS Investors, LLC ("QS Investors") acts as an investment subadvisor to the Fund and manages the portion of assets allocated to the Fund's global tactical asset allocation overlay strategy. QS Investors is paid by the Advisor for the services QS Investors provides to the Fund.

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays a monthly management fee based on the Fund's average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

First $250 million	.550%
Next $750 million	.520%
Next $1.5 billion	.500%
Next $2.5 billion	.480%
Next $2.5 billion	.450%
Next $2.5 billion	.430%
Next $2.5 billion	.410%
Over $12.5 billion	.390%

For the period from January 1, 2012 through April 30, 2013, the Advisor has contractually agreed to waive its fee and/or reimburse certain operating expenses to the extent necessary to maintain the operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) at 0.78%.

Accordingly, for the six months ended June 30, 2012, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $69,078, and the amount charged aggregated $123,590, which was equivalent to an annualized effective rate of 0.35% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the six months ended June 30, 2012, the Administration Fee was $35,031, of which $5,826 is unpaid.

Service Provider Fees. DWS Investments Service Company ("DISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2012, the amounts charged to the Fund by DISC aggregated $61, all of which was waived.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended June 30, 2012, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $11,496, of which $1,567 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

Security Lending Fees. Effective January 27, 2012, Deutsche Bank AG serves as lending agent for the Fund. For the period from January 27, 2012 through June 30, 2012, the Fund incurred lending agent fees to Deutsche Bank AG for the amount of $646.

E. Investing in High-Yield Securities

The Fund's performance could be hurt if a security declines in credit quality or goes into default, or if an issuer does not make timely payments of interest or principal. Because the issuers of high-yield debt securities or junk bonds (debt securities rated below the fourth-highest category) may be in uncertain financial health, the risk of loss from default by the issuer is significantly greater. Prices and yields of high-yield securities will fluctuate over time and, during periods of economic uncertainty, volatility of high-yield securities may adversely affect a fund's net asset value. Because the Fund may invest in securities not paying current interest or in securities already in default, these risks may be more pronounced.

F. Investing in Emerging Markets

Investing in emerging markets may involve special risks and considerations not typically associated with investing in developed markets. These risks include revaluation of currencies, high rates of inflation or deflation, 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 or delayed settlements, and may have prices that are more volatile or less easily assessed than those of comparable securities of issuers in developed markets.

G. Ownership of the Fund

At June 30, 2012, two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 62% and 35%.

H. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $375 million revolving credit facility provided by a syndication of banks. The Fund may borrow 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 on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at June 30, 2012.

Information About Your Fund's Expenses (Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees and other Fund expenses. Examples of transaction costs include contract charges 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 Fund 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 Fund limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (January 1, 2012 to June 30, 2012).

The tables illustrate your Fund's expenses in two ways:

- **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund'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% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund'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. 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, 2012

Actual Fund Return	**Class A**
Beginning Account Value 1/1/12	$1,000.00
Ending Account Value 6/30/12	$1,056.30
Expenses Paid per $1,000*	$ 4.04
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/12	$1,000.00
Ending Account Value 6/30/12	$1,020.93
Expenses Paid per $1,000*	$ 3.97

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 182 (the number of days in the most recent six-month period), then divided by 366.

Annualized Expense Ratio	**Class A**
DWS Variable Series II — DWS Unconstrained Income VIP	.79%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

Proxy Voting

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 are available on our Web site — www.dws-investments.com (click on "proxy voting" at the bottom of the page) — 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) 728-3337.

Summary of Management Fee Evaluation by Independent Fee Consultant

September 26, 2011

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds (formerly the DWS Scudder Funds). My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2011, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007, 2008, 2009 and 2010.

Qualifications

For more than 35 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past ten years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds and have served in various leadership and financial oversight capacities with non-profit organizations.

Evaluation of Fees for each DWS Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 109 mutual fund portfolios in the DWS Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

- The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.
- The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

DeAM's Fees for Similar Services to Others

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Fund. These similar products included the other DWS Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

Costs and Profit Margins

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

Economies of Scale

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Fund compares with this industry observation, I reviewed:

- The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.
- Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.
- How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

Quality of Service — Performance

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

Complex-Level Considerations

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

- I reviewed DeAM's profitability analysis for all DWS Funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.
- I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.
- I considered how aggregated DWS Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.
- I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

Findings

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Funds are reasonable.

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VS2UI-3 (R-028389-1 8/12)

DWS INVESTMENTS
Deutsche Bank Group

JUNE 30, 2012

Franklin Templeton Variable Insurance Products Trust

SEMIANNUAL REPORT

FRANKLIN TEMPLETON INVESTMENTS

Franklin · Templeton · Mutual Series

Franklin Templeton Variable Insurance Products Trust Semiannual Report Table of Contents

Important Notes to Performance Information

Performance data is historical and cannot predict or guarantee future results. Principal value and investment return will fluctuate with market conditions, and you may have a gain or loss when you withdraw your money. Inception dates of the funds may have preceded the effective dates of the subaccounts, contracts, or their availability in all states.

When reviewing the index comparisons, please keep in mind that indexes have a number of inherent performance differentials over the funds. First, unlike the funds, which must hold a minimum amount of cash to maintain liquidity, indexes do not have a cash component. Second, the funds are actively managed and, thus, are subject to management fees to cover salaries of securities analysts or portfolio managers in addition to other expenses. Indexes are unmanaged and do not include any commissions or other expenses typically associated with investing in securities. Third, indexes often contain a different mix of securities than the fund to which they are compared. Additionally, please remember that indexes are simply a measure of performance and cannot be invested in directly.

This semiannual report for Templeton Developing Markets Securities Fund covers the period ended June 30, 2012.

Performance Summary as of 6/30/12

Templeton Developing Markets Securities Fund – Class 2 delivered a +0.23% total return for the six-month period ended 6/30/12.

Performance reflects the Fund's Class 2 operating expenses, but does ***not*** *include any contract fees, expenses or sales charges. If they had been included, performance would be lower. These charges and deductions, particularly for variable life policies, can have a significant effect on contract values and insurance benefits. See the contract prospectus for a complete description of these expenses, including sales charges.*

Templeton Developing Markets Securities Fund Class 2

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown.

Fund Risks: All investments involve risks, including possible loss of principal. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Value securities may not increase in price as anticipated, or may decline further in value. Risks associated with foreign investing include currency fluctuations, economic instability and political developments. Investments in developing markets involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size and lesser liquidity. The Fund may focus on particular sectors of the market from time to time, which can carry greater risks of adverse developments in such sectors. Smaller or midsized companies can be particularly sensitive to changing economic conditions, and their prospects for growth are less certain than those of larger, more established companies. The Fund is designed for the aggressive portion of a well-diversified portfolio. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

Fund Goal and Main Investments: Templeton Developing Markets Securities Fund seeks long-term capital appreciation. Under normal market conditions, the Fund invests at least 80% of its net assets in emerging market investments.

Performance Overview

You can find the Fund's six-month total return in the Performance Summary. In comparison, the MSCI Emerging Markets (EM) Index posted a +4.12% total return, and the Standard & Poor's®/International Finance Corporation Investable Composite Index had a +4.48% total return for the same period.[1] Please note index performance numbers are for reference and we do not attempt to track an index but rather undertake investments on the basis of fundamental research.

Economic and Market Overview

Emerging market economies generally continued to grow faster than developed market economies during the six months under review. Emerging market stocks had a solid start to 2012 as improved economic data, government and central bank efforts to stimulate growth and substantial investment inflows drove market performance. The European Union's approval of a second bailout package for Greece and the European Central Bank's additional issuance of low interest loans to the region's banks worth more than 529 billion euros (approximately US$700 billion) to ease the credit crunch and contain the debt crisis provided investors with additional reasons to remain positive.

The tide changed in April, however, as it became evident the eurozone sovereign debt crisis was far from contained. Record-high unemployment in the region, speculation on Greece's exit from the European Union and concerns about Spanish banks' solvency worsened. Weaker-than-expected U.S. economic data raised fears of another recession in the world's largest economy. Major emerging economies including China and India reported slowing gross domestic product growth. News that the Chinese government had no plans to implement a wide-scale stimulus package also weighed on investor confidence.

Global stock prices rebounded in the first three weeks of June as optimism on the victory of the pro-bailout New Democracy party in Greece

1. Source: © 2012 Morningstar. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio. Please see Index Descriptions following the Fund Summaries.

and expectations of a third quantitative easing (QE3) program from the U.S. Federal Reserve Board (Fed) fueled stock market performance. However, sentiment turned sour as investors focused on Spain's banking crisis and the Fed's decision to extend the maturity extension program, dubbed Operation Twist, rather than to implement QE3.

Financial markets received good news on the last trading day of June when European leaders agreed to directly recapitalize the region's struggling banks and work toward budgetary and political union. Global stocks rallied, leading emerging market stocks, as measured by the MSCI EM Index, to post a +4.12% total return in U.S. dollar terms for the six-month period.[1]

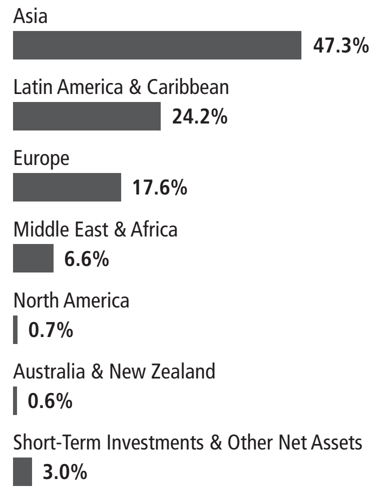
Investment Strategy

We employ a fundamental research, value-oriented, long-term investment approach. We focus on the market price of a company's securities relative to our evaluation of its long-term earnings, asset value and cash flow potential. We also consider a company's profit and loss outlook, balance sheet strength, cash flow trends and asset value in relation to the current price. Our analysis considers the company's corporate governance behavior as well as its position in its sector, the economic framework and political environment. We invest in securities without regard to benchmark comparisons.

Manager's Discussion

During the six months under review, key contributors to the Fund's absolute performance were Souza Cruz, a major Brazilian cigarette company; Brazil-based AmBev (Companhia de Bebidas das Americas), one of the world's largest beer and soft drink producers; and Kasikornbank, one of Thailand's leading commercial banks. The strong market positions of Souza Cruz and AmBev have allowed their businesses to achieve superior returns and build market share as consumers become wealthier and more discerning. In our view, these companies have strong operations, low debt levels, good dividend yields and popular brands that make them attractive investments. We believe Kasikornbank is well positioned to benefit from Thailand's potentially strong economic growth as the country recovers from last year's floods and the government's fiscal stimulus measures, including minimum wage increases, work through the economy. The bank enjoyed strong earnings in the first half of 2012 as it benefited from strong loan growth.

Geographic Breakdown
Templeton Developing Markets Securities Fund
Based on Total Net Assets as of 6/30/12



Top 10 Holdings
Templeton Developing Markets Securities Fund
6/30/12

Company *Sector/Industry, Country*	**% of Total Net Assets**
AmBev (Companhia de Bebidas das Americas) *Beverages, Brazil*	7.8%
PT Astra International Tbk *Automobiles, Indonesia*	6.0%
Tata Consultancy Services Ltd. *IT Services, India*	5.2%
Souza Cruz SA *Tobacco, Brazil*	5.0%
LUKOIL Holdings, ADR *Oil, Gas & Consumable Fuels, Russia*	3.4%
PetroChina Co. Ltd., H *Oil, Gas & Consumable Fuels, China*	3.2%
Sberbank of Russia *Commercial Banks, Russia*	3.0%
Kasikornbank PCL, fgn. *Commercial Banks, Thailand*	3.0%
Vale SA, ADR, pfd., A *Metals & Mining, Brazil*	2.9%
Gazprom, ADR *Oil, Gas & Consumable Fuels, Russia*	2.9%

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments.

In contrast, key detractors from absolute performance during the reporting period included Itau Unibanco Holding, one of Brazil's largest financial conglomerates; Luk Fook Holdings (International), a major jewelry retail chain in Hong Kong and mainland China; and Astra International, Indonesia's leading car and motorcycle company. Itau Unibanco's share price weakened as ongoing central bank interest rate cuts threatened to hurt the bank's profit margins. In our long-term view, the bank could benefit from its strong market position as Brazil's economy grows and consumer wealth increases. Luk Fook's sales growth eased recently as China's slowing economic growth led Chinese tourists to cut spending on luxury items such as jewelry. However, we maintained a positive view of the company because we feel it has a solid market position, high return on equity, strong balance sheet and increasing presence in mainland China. Astra's share price corrected largely due to investor expectations that new rules in Indonesia, which increased the minimum down payment required for vehicle purchases, could impact sales. As a leader in the Indonesian car and motorcycle markets, which have been enjoying strong secular growth trends, Astra could benefit from the potential continuation of the country's robust economic growth, higher incomes and affordable credit in the long term.

It is important to recognize the effect of currency movements on the Fund's performance. In general, if the value of the U.S. dollar goes up compared with a foreign currency, an investment traded in that foreign currency will go down in value because it will be worth fewer U.S. dollars. This can have a negative effect on Fund performance. Conversely, when the U.S. dollar weakens in relation to a foreign currency, an investment traded in that foreign currency will increase in value, which can contribute to Fund performance. For the six months ended June 30, 2012, the U.S. dollar rose in value relative to many currencies in which the Fund's investments were traded. As a result, the Fund's performance was negatively affected by the portfolio's investment predominantly in securities with non-U.S. currency exposure.

In the past six months, we initiated positions in Colombia and Kenya and increased our holdings in Hong Kong, South Africa and South Korea as we continued to search for what we considered to be attractive investment opportunities. We added to casinos and gaming, catalog retail and specialty retail companies. Key purchases included additional shares of SJM Holdings, one of Macau's largest casino operators, and the aforementioned Luk Fook, as well as a new position in South Korea-based Samsung Electronics, one of the world's largest electronics manufacturers.

As certain stocks reached our sale targets, we reduced the Fund's investments in Brazil, Indonesia and Taiwan to focus on stocks we considered to be more attractively valued within our investment universe. We reduced the Fund's holdings largely in diversified metals and mining, diversified banking and food retail companies. Key reductions included Brazilian iron ore and nickel producer Vale, Indonesia-based Bank Central Asia and Taiwan-based convenience retail operator President Chain Store.

Thank you for your participation in Templeton Developing Markets Securities Fund. We look forward to serving your future investment needs.

Top 10 Countries
Templeton Developing Markets Securities Fund
6/30/12

	% of Total Net Assets
Brazil	18.4%
Russia	15.0%
China	9.9%
India	9.0%
Indonesia	8.7%
Thailand	6.7%
Hong Kong	6.2%
Chile	4.2%
South Africa	4.1%
Singapore	2.4%

The foregoing information reflects our analysis, opinions and portfolio holdings as of June 30, 2012, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

Templeton Developing Markets Securities Fund Class 2

Fund Expenses

As an investor in a variable insurance contract (Contract) that indirectly provides for investment in an underlying mutual fund, you can incur transaction and/or ongoing expenses at both the Fund level and the Contract level.

- Transaction expenses can include sales charges (loads) on purchases, surrender fees, transfer fees and premium taxes.
- Ongoing expenses can include management fees, distribution and service (12b-1) fees, contract fees, annual maintenance fees, mortality and expense risk fees and other fees and expenses. All mutual funds and Contracts have some types of ongoing expenses.

The expenses shown in the table are meant to highlight ongoing expenses at the Fund level only and do not include ongoing expenses at the Contract level, or transaction expenses at either the Fund or Contract levels. While the Fund does not have transaction expenses, if the transaction and ongoing expenses at the Contract level were included, the expenses shown below would be higher. You should consult your Contract prospectus or disclosure document for more information.

The table shows Fund-level ongoing expenses and can help you understand these expenses and compare them with those of other mutual funds offered through the Contract. The table assumes a $1,000 investment held for the six months indicated. Please refer to the Fund prospectus for additional information on operating expenses.

Actual Fund Expenses

The first line (Actual) of the table provides actual account values and expenses. The "Ending Account Value" is derived from the Fund's actual return, which includes the effect of ongoing Fund expenses, but does not include the effect of ongoing Contract expenses.

You can estimate the Fund-level expenses you incurred during the period by following these steps. *Of course, your account value and expenses will differ from those in this illustration:*

1. Divide your account value by $1,000.
   If an account had an $8,600 value, then $8,600 ÷ $1,000 = 8.6.
2. Multiply the result by the number under the heading "Fund-Level Expenses Incurred During Period."
   If Fund-Level Expenses Incurred During Period were $7.50, then 8.6 x $7.50 = $64.50.

In this illustration, the estimated expenses incurred this period at the Fund level are $64.50.

Hypothetical Example for Comparison with Other Mutual Funds

Information in the second line (Hypothetical) of the table can help you compare ongoing expenses of the Fund with those of other mutual funds offered through the Contract. This information may not be used to estimate the actual ending account balance or expenses you incurred during the period. The hypothetical "Ending Account Value" is based on the Fund's actual expense ratio and an assumed 5% annual rate of return before expenses, which does not represent the Fund's actual return. The figure under the heading "Fund-Level Expenses Incurred During Period" shows the hypothetical expenses your account would have incurred under this scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds offered through a Contract.

Class 2	Beginning Account Value 1/1/12	Ending Account Value 6/30/12	Fund-Level Expenses Incurred During Period* 1/1/12–6/30/12
Actual	$1,000	$1,002.30	$7.97
Hypothetical (5% return before expenses)	$1,000	$1,016.91	$8.02

*Expenses are calculated using the most recent six-month annualized expense ratio for the Fund's Class 2 shares (1.60%), which does not include any ongoing expenses of the Contract for which the Fund is an investment option, multiplied by the average account value over the period, multiplied by 182/366 to reflect the one-half year period.

Franklin Templeton Variable Insurance Products Trust

Financial Highlights

Templeton Developing Markets Securities Fund

Class 1	Six Months Ended June 30, 2012 (unaudited)	Year Ended December 31, 2011	2010	2009	2008	2007
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$ 9.50	$ 11.40	$ 9.86	$ 6.11	$ 16.16	$ 13.92
Income from investment operations[a]:						
Net investment income[b]	0.11	0.17	0.09	0.12	0.16	0.32
Net realized and unrealized gains (losses)	(0.08)	(1.94)	1.63	4.02	(7.40)	3.51
Total from investment operations	0.03	(1.77)	1.72	4.14	(7.24)	3.83
Less distributions from:						
Net investment income	(0.17)	(0.13)	(0.18)	(0.36)	(0.37)	(0.38)
Net realized gains	—	—	—	(0.03)	(2.44)	(1.21)
Total distributions	(0.17)	(0.13)	(0.18)	(0.39)	(2.81)	(1.59)
Redemption fees[c]	—	—	—	—	—	—
Net asset value, end of period	$ 9.36	$ 9.50	$ 11.40	$ 9.86	$ 6.11	$ 16.16
Total return[d]	0.33%	(15.67)%	17.83%	73.32%	(52.62)%	29.09%
Ratios to average net assets[e]						
Expenses	1.35%	1.40%	1.49%[f]	1.45%[f]	1.52%[f]	1.48%[f]
Net investment income	2.25%	1.57%	0.87%	1.64%	1.52%	2.07%
Supplemental data						
Net assets, end of period (000's)	$198,960	$ 232,544	$347,242	$325,927	$ 234,213	$753,843
Portfolio turnover rate	11.32%	14.90%	24.41%	56.58%[g]	75.11%[g]	98.32%

[a]The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
[b]Based on average daily shares outstanding.
[c]Amount rounds to less than $0.01 per share.
[d]Total return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which the Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle. Total return is not annualized for periods less than one year.
[e]Ratios are annualized for periods less than one year.
[f]Benefit of expense reduction rounds to less than 0.01%.
[g]Excludes the value of portfolio securities delivered as a result of redemptions in-kind.

Franklin Templeton Variable Insurance Products Trust

Financial Highlights *(continued)*

Templeton Developing Markets Securities Fund

Class 2	Six Months Ended June 30, 2012 (unaudited)	Year Ended December 31, 2011	2010	2009	2008	2007
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$ 9.42	$ 11.30	$ 9.78	$ 6.04	$ 15.99	$ 13.79
Income from investment operations[a]:						
Net investment income[b]	0.10	0.14	0.06	0.11	0.15	0.27
Net realized and unrealized gains (losses)	(0.08)	(1.92)	1.62	3.98	(7.33)	3.49
Total from investment operations	0.02	(1.78)	1.68	4.09	(7.18)	3.76
Less distributions from:						
Net investment income	(0.14)	(0.10)	(0.16)	(0.32)	(0.33)	(0.35)
Net realized gains	—	—	—	(0.03)	(2.44)	(1.21)
Total distributions	(0.14)	(0.10)	(0.16)	(0.35)	(2.77)	(1.56)
Redemption fees[c]	—	—	—	—	—	—
Net asset value, end of period	$ 9.30	$ 9.42	$ 11.30	$ 9.78	$ 6.04	$ 15.99
Total return[d]	0.23%	(15.86)%	17.58%	72.59%	(52.70)%	28.78%
Ratios to average net assets[e]						
Expenses	1.60%	1.65%	1.74%[f]	1.70%[f]	1.77%[f]	1.73%[f]
Net investment income	2.00%	1.32%	0.62%	1.39%	1.27%	1.82%
Supplemental data						
Net assets, end of period (000's)	$281,185	$ 295,223	$392,546	$435,947	$ 264,186	$1,090,549
Portfolio turnover rate	11.32%	14.90%	24.41%	56.58%[g]	75.11%[g]	98.32%

[a]The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
[b]Based on average daily shares outstanding.
[c]Amount rounds to less than $0.01 per share.
[d]Total return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which the Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle. Total return is not annualized for periods less than one year.
[e]Ratios are annualized for periods less than one year.
[f]Benefit of expense reduction rounds to less than 0.01%.
[g]Excludes the value of portfolio securities delivered as a result of redemptions in-kind.

Franklin Templeton Variable Insurance Products Trust

Financial Highlights *(continued)*

Templeton Developing Markets Securities Fund

Class 3	Six Months Ended June 30, 2012 (unaudited)	Year Ended December 31, 2011	2010	2009	2008	2007
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$ 9.36	$ 11.23	$ 9.73	$ 6.02	$ 15.96	$ 13.78
Income from investment operations[a]:						
Net investment income[b]	0.10	0.14	0.06	0.10	0.11	0.24
Net realized and unrealized gains (losses)	(0.08)	(1.91)	1.60	3.97	(7.27)	3.52
Total from investment operations	0.02	(1.77)	1.66	4.07	(7.16)	3.76
Less distributions from:						
Net investment income	(0.14)	(0.10)	(0.16)	(0.33)	(0.34)	(0.37)
Net realized gains	—	—	—	(0.03)	(2.44)	(1.21)
Total distributions	(0.14)	(0.10)	(0.16)	(0.36)	(2.78)	(1.58)
Redemption fees[c]	—	—	—	—	—	—
Net asset value, end of period	$ 9.24	$ 9.36	$ 11.23	$ 9.73	$ 6.02	$ 15.96
Total return[d]	0.25%	(15.86)%	17.51%	72.63%	(52.67)%	28.70%
Ratios to average net assets[e]						
Expenses	1.60%	1.65%	1.74%[f]	1.70%[f]	1.77%[f]	1.73%[f]
Net investment income	2.00%	1.32%	0.62%	1.39%	1.27%	1.82%
Supplemental data						
Net assets, end of period (000's)	$ 47,836	$ 44,702	$ 66,484	$ 66,718	$ 32,953	$100,961
Portfolio turnover rate	11.32%	14.90%	24.41%	56.58%[g]	75.11%[g]	98.32%

[a]The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
[b]Based on average daily shares outstanding.
[c]Amount rounds to less than $0.01 per share.
[d]Total return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which the Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle. Total return is not annualized for periods less than one year.
[e]Ratios are annualized for periods less than one year.
[f]Benefit of expense reduction rounds to less than 0.01%.
[g]Excludes the value of portfolio securities delivered as a result of redemptions in-kind.

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

Franklin Templeton Variable Insurance Products Trust

Financial Highlights *(continued)*

Templeton Developing Markets Securities Fund

Class 4	Six Months Ended June 30, 2012 (unaudited)	Year Ended December 31, 2011	2010	2009	2008[a]
Per share operating performance					
(for a share outstanding throughout the period)					
Net asset value, beginning of period	$ 9.42	$ 11.30	$ 9.80	$ 6.09	$ 14.88
Income from investment operations[b]:					
Net investment income (loss)[c]	0.10	0.13	0.05	0.09	(0.33)
Net realized and unrealized gains (losses)	(0.10)	(1.91)	1.61	4.00	(5.65)
Total from investment operations	—	(1.78)	1.66	4.09	(5.98)
Less distributions from:					
Net investment income	(0.12)	(0.10)	(0.16)	(0.35)	(0.37)
Net realized gains	—	—	—	(0.03)	(2.44)
Total distributions	(0.12)	(0.10)	(0.16)	(0.38)	(2.81)
Redemption fees[d]	—	—	—	—	—
Net asset value, end of period	$ 9.30	$ 9.42	$ 11.30	$ 9.80	$ 6.09
Total return[e]	0.04%	(15.88)%	17.41%	72.45%	(48.66)%
Ratios to average net assets[f]					
Expenses	1.70%	1.75%	1.84%[g]	1.80%[g]	1.87%[g]
Net investment income	1.90%	1.22%	0.52%	1.29%	1.17%
Supplemental data					
Net assets, end of period (000's)	$ 22,698	$ 24,380	$ 37,198	$ 26,362	$ 7,208
Portfolio turnover rate	11.32%	14.90%	24.41%	56.58%[h]	75.11%[h]

[a]For the period February 29, 2008 (effective date) to December 31, 2008.
[b]The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
[c]Based on average daily shares outstanding.
[d]Amount rounds to less than $0.01 per share.
[e]Total return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which the Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle. Total return is not annualized for periods less than one year.
[f]Ratios are annualized for periods less than one year.
[g]Benefit of expense reduction rounds to less than 0.01%.
[h]Excludes the value of portfolio securities delivered as a result of redemptions in-kind.

Franklin Templeton Variable Insurance Products Trust

Statement of Investments, June 30, 2012 (unaudited)

Templeton Developing Markets Securities Fund	Industry	Shares	Value
Closed End Funds 0.4%			
Romania 0.4%			
SIF Banat-Crisana	Diversified Financial Services	1,457,300	$ 373,071
SIF Moldova	Diversified Financial Services	1,509,345	540,953
SIF Muntenia	Diversified Financial Services	1,278,433	260,007
SIF Oltenia	Diversified Financial Services	1,751,291	557,926
SIF Transilvania	Diversified Financial Services	4,500,540	573,129
Total Closed End Funds (Cost $2,899,996)			2,305,086
Common Stocks 90.4%			
Australia 0.6%			
BHP Billiton Ltd.	Metals & Mining	101,481	3,267,058
Austria 0.2%			
[a]Raiffeisen Bank International AG	Commercial Banks	40,018	1,304,154
Brazil 14.5%			
Companhia de Bebidas das Americas (AmBev)	Beverages	1,362,350	42,852,674
Itau Unibanco Holding SA, ADR	Commercial Banks	653,674	9,099,142
Souza Cruz SA	Tobacco	1,888,597	27,727,702
			79,679,518
Chile 2.5%			
Antofagasta PLC	Metals & Mining	794,779	13,554,220
China 9.9%			
Anhui Conch Cement Co. Ltd., H	Construction Materials	1,945,144	5,265,210
CNOOC Ltd.	Oil, Gas & Consumable Fuels	7,181,000	14,254,444
[a]Great Wall Motor Co. Ltd., H	Automobiles	3,121,177	6,179,513
PetroChina Co. Ltd., H	Oil, Gas & Consumable Fuels	13,880,000	17,801,523
Tencent Holdings Ltd.	Internet Software & Services	82,000	2,388,729
Yantai Changyu Pioneer Wine Co. Ltd., B	Beverages	614,262	4,140,950
Yanzhou Coal Mining Co. Ltd., H	Oil, Gas & Consumable Fuels	3,038,000	4,691,257
			54,721,626
Colombia 0.3%			
Ecopetrol SA, ADR	Oil, Gas & Consumable Fuels	30,437	1,698,080
Hong Kong 6.2%			
Dairy Farm International Holdings Ltd.	Food & Staples Retailing	1,014,733	10,776,465
Giordano International Ltd.	Specialty Retail	1,069,045	753,751
I.T Ltd.	Specialty Retail	5,040,000	2,176,306
Luk Fook Holdings (International) Ltd.	Specialty Retail	2,032,313	4,217,558
[b]Luk Fook Holdings (International) Ltd., 144A	Specialty Retail	130,000	269,783
SJM Holdings Ltd.	Hotels, Restaurants & Leisure	5,534,030	10,157,717
VTech Holdings Ltd.	Communications Equipment	506,300	6,003,996
			34,355,576
India 9.0%			
Grasim Industries Ltd.	Construction Materials	28,924	1,379,426
Infosys Ltd.	IT Services	165,015	7,439,349
National Aluminium Co. Ltd.	Metals & Mining	180,606	193,913
Oil & Natural Gas Corp. Ltd.	Oil, Gas & Consumable Fuels	1,572,924	8,067,222
Tata Chemicals Ltd.	Chemicals	669,855	3,749,909
Tata Consultancy Services Ltd.	IT Services	1,244,539	28,642,782
			49,472,601

Franklin Templeton Variable Insurance Products Trust

Statement of Investments, June 30, 2012 (unaudited) *(continued)*

Templeton Developing Markets Securities Fund	Industry	Shares	Value
Common Stocks (continued)			
Indonesia 8.7%			
PT Astra International Tbk	Automobiles	45,325,000	$ 33,055,762
PT Bank Central Asia Tbk	Commercial Banks	11,282,532	8,768,963
PT Bank Rakyat Indonesia (Persero) Tbk	Commercial Banks	8,664,000	5,857,482
			47,682,207
Kenya 0.2%			
British American Tobacco Kenya Ltd. Corp.	Tobacco	45,200	199,459
Equity Bank Ltd.	Commercial Banks	1,181,300	297,778
Kenya Commercial Bank Ltd.	Commercial Banks	2,032,200	560,482
			1,057,719
Malaysia 0.5%			
Kuala Lumpur Kepong Bhd.	Food Products	394,500	2,854,386
Mexico 0.7%			
Kimberly Clark de Mexico SAB de CV, A	Household Products	1,952,613	3,823,001
Nigeria 0.6%			
First Bank of Nigeria PLC	Commercial Banks	7,297,629	489,199
Guinness Nigeria PLC	Beverages	214,723	298,172
Nigerian Breweries PLC	Beverages	4,294,577	2,684,935
			3,472,306
Qatar 0.5%			
Industries Qatar QSC	Industrial Conglomerates	77,085	2,646,423
Russia 15.0%			
Gazprom, ADR	Oil, Gas & Consumable Fuels	1,203,700	11,435,150
Gazprom, ADR (London Stock Exchange)	Oil, Gas & Consumable Fuels	470,200	4,431,635
[c]LUKOIL Holdings, ADR	Oil, Gas & Consumable Fuels	75,208	4,217,665
[c]LUKOIL Holdings, ADR (London Stock Exchange)	Oil, Gas & Consumable Fuels	260,068	14,479,286
Mining and Metallurgical Co. Norilsk Nickel, ADR	Metals & Mining	251,243	4,175,659
Sberbank of Russia	Commercial Banks	6,150,040	16,400,739
TNK-BP Holding	Oil, Gas & Consumable Fuels	5,340,274	12,335,629
[d]Uralkali OJSC, GDR, Reg S	Chemicals	401,096	15,351,949
			82,827,712
Singapore 2.4%			
Keppel Corp. Ltd.	Industrial Conglomerates	846,557	6,868,671
SembCorp Marine Ltd.	Machinery	1,672,000	6,307,940
			13,176,611
South Africa 4.1%			
Exxaro Resources Ltd.	Oil, Gas & Consumable Fuels	272,483	6,339,188
Remgro Ltd.	Diversified Financial Services	614,891	9,896,268
Tiger Brands Ltd.	Food Products	212,099	6,360,153
			22,595,609
South Korea 1.6%			
Samsung Electronics Co. Ltd.	Semiconductors & Semiconductor Equipment	4,453	4,685,849
SK Innovation Co. Ltd.	Oil, Gas & Consumable Fuels	35,682	4,314,404
			9,000,253
Taiwan 2.1%			
President Chain Store Corp.	Food & Staples Retailing	2,133,075	11,347,667

Statement of Investments, June 30, 2012 (unaudited) *(continued)*

Templeton Developing Markets Securities Fund	Industry	Shares	Value
Common Stocks (continued)			
Thailand 6.7%			
Kasikornbank PCL, fgn.	Commercial Banks	3,116,500	$ 16,290,908
PTT Exploration and Production PCL, fgn.	Oil, Gas & Consumable Fuels	2,021,223	10,757,657
PTT PCL, fgn.	Oil, Gas & Consumable Fuels	938,100	9,599,439
Supalai PCL, fgn.	Real Estate Management & Development	184,644	100,029
			36,748,033
Turkey 1.1%			
Tupras-Turkiye Petrol Rafinerileri AS	Oil, Gas & Consumable Fuels	274,426	5,873,727
United Arab Emirates 1.2%			
Emaar Properties PJSC	Real Estate Management & Development	8,942,377	6,816,857
United Kingdom 0.9%			
Anglo American PLC	Metals & Mining	146,649	4,869,782
United States 0.7%			
Avon Products Inc.	Personal Products	246,420	3,994,468
Vietnam 0.2%			
DHG Pharmaceutical JSC	Pharmaceuticals	95,800	290,997
Dong Phu Rubber JSC	Chemicals	88,000	218,895
Vinacafe Bien Hoa JSC	Food Products	68,500	422,699
			932,591
Total Common Stocks (Cost $339,459,761)			497,772,185
Preferred Stocks 6.2%			
Brazil 3.9%			
Itausa - Investimentos Itau SA, ADR, pfd.	Commercial Banks	17,790	74,422
Itausa - Investimentos Itau SA, pfd.	Commercial Banks	1,241,305	5,254,659
Vale SA, ADR, pfd., A	Metals & Mining	831,932	16,230,993
			21,560,074
Chile 1.7%			
Embotelladora Andina SA, pfd., A	Beverages	2,049,785	8,964,612
Colombia 0.6%			
Bancolombia SA, ADR, pfd.	Commercial Banks	53,200	3,289,888
Total Preferred Stocks (Cost $18,650,704)			33,814,574
Total Investments before Short Term Investments (Cost $361,010,461)			533,891,845
Short Term Investments 3.4%			
Money Market Funds (Cost $16,675,196) 3.0%			
United States 3.0%			
[e,f]Institutional Fiduciary Trust Money Market Portfolio		16,675,196	16,675,196

Statement of Investments, June 30, 2012 (unaudited) *(continued)*

Templeton Developing Markets Securities Fund	Shares	Value
Short Term Investments (continued)		
[g]**Investments from Cash Collateral Received for Loaned Securities (Cost $2,583,471) 0.4%**		
Money Market Funds 0.4%		
United States 0.4%		
[h]BNY Mellon Overnight Government Fund, 0.182%	2,583,471	$ 2,583,471
Total Investments (Cost $380,269,128) 100.4%		553,150,512
Other Assets, less Liabilities (0.4)%		(2,471,634)
Net Assets 100.0%		$550,678,878

See Abbreviations on page TD-26.

[a]A portion or all of the security is on loan at June 30, 2012. See Note 1(c).
[b]Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. This security has been deemed liquid under guidelines approved by the Trust's Board of Trustees. At June 30, 2012, the value of this security was $269,783, representing 0.05% of net assets.
[c]At June 30, 2012, pursuant to the Fund's policies and the requirements of applicable securities law, the Fund may be restricted from trading these securities for a limited or extended period of time due to ownership limits and/or potential possession of material non-public information.
[d]Security was purchased pursuant to Regulation S under the Securities Act of 1933, which exempts from registration securities offered and sold outside of the United States. Such a security cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. This security has been deemed liquid under guidelines approved by the Trust's Board of Trustees. At June 30, 2012, the value of this security was $15,351,949, representing 2.79% of net assets.
[e]Non-income producing.
[f]See Note 7 regarding investments in the Institutional Fiduciary Trust Money Market Portfolio.
[g]See Note 1(c) regarding securities on loan.
[h]The rate shown is the annualized seven-day yield at period end.

Franklin Templeton Variable Insurance Products Trust

Financial Statements

Statement of Assets and Liabilities

June 30, 2012 (unaudited)

	Templeton Developing Markets Securities Fund
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	$ 363,593,932
Cost - Sweep Money Fund (Note 7)	16,675,196
Total cost of investments	$ 380,269,128
Value - Unaffiliated issuers	$ 536,475,316
Value - Sweep Money Fund (Note 7)	16,675,196
Total value of investments (includes securities loaned in the amount of $2,509,564)	553,150,512
Foreign currency, at value (cost $92,399)	92,487
Receivables:	
Investment securities sold	2,499,526
Capital shares sold	203,571
Dividends	2,924,807
Foreign tax	27,630
Other assets	151
Total assets	558,898,684
Liabilities:	
Payables:	
Investment securities purchased	3,430,205
Capital shares redeemed	1,099,997
Affiliates	689,157
Payable upon return of securities loaned	2,583,471
Accrued expenses and other liabilities	416,976
Total liabilities	8,219,806
Net assets, at value	$ 550,678,878
Net assets consist of:	
Paid-in capital	$ 496,473,023
Undistributed net investment income	5,595
Net unrealized appreciation (depreciation)	172,853,271
Accumulated net realized gain (loss)	(118,653,011)
Net assets, at value	$ 550,678,878

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

Statement of Assets and Liabilities *(continued)*

June 30, 2012 (unaudited)

	Templeton Developing Markets Securities Fund
Class 1:	
Net assets, at value	$198,959,805
Shares outstanding	21,265,537
Net asset value and maximum offering price per share	$ 9.36
Class 2:	
Net assets, at value	$281,184,776
Shares outstanding	30,250,841
Net asset value and maximum offering price per share	$ 9.30
Class 3:	
Net assets, at value	$ 47,836,176
Shares outstanding	5,179,618
Net asset value and maximum offering price per share[a]	$ 9.24
Class 4:	
Net assets, at value	$ 22,698,121
Shares outstanding	2,439,605
Net asset value and maximum offering price per share	$ 9.30

[a]Redemption price is equal to net asset value less redemption fees retained by the Fund.

Financial Statements *(continued)*

Statement of Operations

for the six months ended June 30, 2012 (unaudited)

	Templeton Developing Markets Securities Fund
Investment income:	
Dividends (net of foreign taxes of $1,012,523)	$ 10,949,427
Income from securities loaned	43,857
Total investment income	10,993,284
Expenses:	
Management fees (Note 3a)	3,342,776
Administrative fees (Note 3b)	426,683
Distribution fees: (Note 3c)	
Class 2	378,092
Class 3	64,343
Class 4	43,892
Unaffiliated transfer agent fees	1,211
Custodian fees (Note 4)	206,811
Reports to shareholders	110,700
Professional fees	28,338
Trustees' fees and expenses	1,439
Other	9,817
Total expenses	4,614,102
Net investment income	6,379,182
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments	13,584,804
Foreign currency transactions	(560,713)
Net realized gain (loss)	13,024,091
Net change in unrealized appreciation (depreciation) on:	
Investments	(14,616,878)
Translation of other assets and liabilities denominated in foreign currencies	(5,476)
Net change in unrealized appreciation (depreciation)	(14,622,354)
Net realized and unrealized gain (loss)	(1,598,263)
Net increase (decrease) in net assets resulting from operations	$ 4,780,919

Statements of Changes in Net Assets

	Templeton Developing Markets Securities Fund	
	Six Months Ended June 30, 2012 (unaudited)	Year Ended December 31, 2011
Increase (decrease) in net assets:		
Operations:		
Net investment income	$ 6,379,182	$ 10,217,132
Net realized gain (loss) from investments and foreign currency transactions	13,024,091	41,092,169
Net change in unrealized appreciation (depreciation) on investments, translation of other assets and liabilities denominated in foreign currencies and deferred taxes	(14,622,354)	(168,736,087)
Net increase (decrease) in net assets resulting from operations	4,780,919	(117,426,786)
Distributions to shareholders from:		
Net investment income:		
Class 1	(3,523,272)	(3,575,470)
Class 2	(4,111,805)	(3,331,863)
Class 3	(716,639)	(556,039)
Class 4	(295,623)	(314,405)
Total distributions to shareholders	(8,647,339)	(7,777,777)
Capital share transactions: (Note 2)		
Class 1	(32,894,640)	(64,505,854)
Class 2	(12,064,580)	(37,899,841)
Class 3	4,184,090	(11,807,405)
Class 4	(1,529,976)	(7,237,721)
Total capital share transactions	(42,305,106)	(121,450,821)
Redemption fees	929	34,912
Net increase (decrease) in net assets	(46,170,597)	(246,620,472)
Net assets:		
Beginning of period	596,849,475	843,469,947
End of period	$550,678,878	$ 596,849,475
Undistributed net investment income included in net assets:		
End of period	$ 5,595	$ 2,273,752

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

Franklin Templeton Variable Insurance Products Trust

Notes to Financial Statements (unaudited)

Templeton Developing Markets Securities Fund

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Franklin Templeton Variable Insurance Products Trust (Trust) is registered under the Investment Company Act of 1940, as amended, (1940 Act) as an open-end investment company, consisting of twenty separate funds. The Templeton Developing Markets Securities Fund (Fund) is included in this report. The financial statements of the remaining funds in the Trust are presented separately. Shares of the Fund are generally sold only to insurance company separate accounts to fund the benefits of variable life insurance policies or variable annuity contracts. The Fund offers four classes of shares: Class 1, Class 2, Class 3, and Class 4. Each class of shares differs by its distribution fees, voting rights on matters affecting a single class and its exchange privilege.

The following summarizes the Fund's significant accounting policies.

a. Financial Instrument Valuation

The Fund's investments in financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Under procedures approved by the Trust's Board of Trustees (the Board), the Fund's administrator, investment manager and other affiliates have formed the Valuation and Liquidity Oversight Committee (VLOC). The VLOC provides administration and oversight of the Fund's valuation policies and procedures, which are approved annually by the Board. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities and exchange traded funds listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded, or the NYSE, whichever is earlier. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the close of the NYSE on the day that the value of the security is determined. Over-the-counter securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities. Investments in open-end mutual funds and non-registered money market funds are valued at the closing net asset value.

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the VLOC convenes on a regular basis to review such financial instruments and considers a number of factors, including significant unobservable valuation inputs, when arriving at fair value. The VLOC primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The VLOC employs various methods for calibrating these valuation approaches including a regular review of key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

Trading in securities on foreign securities stock exchanges and over-the-counter markets may be completed before the daily close of business on the NYSE. Occasionally, events occur between the time at which trading in a foreign security is completed and the close of the NYSE that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at the close of the NYSE. In order to minimize the potential for these differences, the VLOC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds). These price movements are measured

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Financial Instrument Valuation (continued)

against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services.

b. Foreign Currency Translation

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in foreign currencies contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Board.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments on the Statement of Operations.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

c. Securities Lending

The Fund participates in an agency based securities lending program. The fund receives cash collateral against the loaned securities in an amount equal to at least 102% of the market value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the market value of loaned securities, as determined at the close of fund business each day; any additional collateral required due to changes in security values is delivered to the fund on the next business day. The collateral is invested in a non-registered money fund as indicated on the Statement of Investments. The fund receives income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. The fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the fund. The securities lending agent has agreed to indemnify the fund in the event of default by a third party borrower.

d. Income and Deferred Taxes

It is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its taxable income and net realized gains to relieve it from federal income and if applicable, excise taxes. As a result, no provision for U.S. federal income taxes is required.

The Fund may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests. When a capital gain tax is determined to apply the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Income and Deferred Taxes (continued)

The Fund recognizes the tax benefits of uncertain tax positions only when the position is "more likely than not" to be sustained upon examination by the tax authorities based on the technical merits of the tax position. As of June 30, 2012, and for all open tax years, the Fund has determined that no liability for unrecognized tax benefits is required in the Fund's financial statements related to uncertain tax positions taken on a tax return (or expected to be taken on future tax returns). Open tax years are those that remain subject to examination and are based on each tax jurisdiction statute of limitation.

e. Security Transactions, Investment Income, Expenses and Distributions

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Estimated expenses are accrued daily. Dividend income is recorded on the ex-dividend date except that certain dividends from foreign securities are recognized as soon as the Fund is notified of the ex-dividend date. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with accounting principles generally accepted in the United States of America. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

Common expenses incurred by the Trust are allocated among the funds based on the ratio of net assets of each fund to the combined net assets of the Trust. Fund specific expenses are charged directly to the fund that incurred the expense.

Realized and unrealized gains and losses and net investment income, not including class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions, by class, are generally due to differences in class specific expenses.

f. Accounting Estimates

The preparation of financial statements in accordance 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 amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

g. Redemption Fees

Redemptions and exchanges of interests in an insurance company subaccount that invests in Class 3 shares of the Fund will be subject to a 1.0% short term trading fee if the interest in the subaccount has been held for less than 60 days. Such fees are retained by the Fund and accounted for as an addition to paid-in capital, allocated to each class of shares based upon the relative proportion of net assets of each class.

h. Guarantees and Indemnifications

Under the Trust's organizational documents, its officers and trustees are indemnified by the Trust against certain liabilities arising out of the performance of their duties to the Trust. Additionally, in the normal course of business, the Trust, on behalf of the Fund, enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Trust that have not yet occurred. Currently, the Trust expects the risk of loss to be remote.

Notes to Financial Statements (unaudited) *(continued)*

Templeton Developing Markets Securities Fund

2. SHARES OF BENEFICIAL INTEREST

At June 30, 2012, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Six Months Ended June 30, 2012		Year Ended December 31, 2011	
Class 1 Shares:	**Shares**	**Amount**	**Shares**	**Amount**
Shares sold	686,552	$ 6,995,534	2,813,987	$ 30,009,154
Shares issued in reinvestment of distributions	385,901	3,523,272	324,453	3,575,470
Shares redeemed	(4,283,973)	(43,413,446)	(9,124,103)	(98,090,478)
Net increase (decrease)	(3,211,520)	$(32,894,640)	(5,985,663)	$ (64,505,854)
Class 2 Shares:				
Shares sold	2,219,589	$ 21,763,966	6,746,331	$ 70,699,788
Shares issued in reinvestment of distributions	453,341	4,111,805	304,558	3,331,863
Shares redeemed	(3,756,025)	(37,940,351)	(10,448,699)	(111,931,492)
Net increase (decrease)	(1,083,095)	$(12,064,580)	(3,397,810)	$ (37,899,841)
Class 3 Shares:				
Shares sold	862,807	$ 8,748,041	848,211	$ 9,362,399
Shares issued in reinvestment of distributions	79,538	716,639	51,154	556,039
Shares redeemed	(536,540)	(5,280,590)	(2,043,372)	(21,725,843)
Net increase (decrease)	405,805	$ 4,184,090	(1,144,007)	$ (11,807,405)
Class 4 Shares:				
Shares sold	183,124	$ 1,808,096	464,313	$ 5,040,717
Shares issued on reinvestment of distributions	32,558	295,623	28,739	314,405
Shares redeemed	(364,859)	(3,633,695)	(1,194,944)	(12,592,843)
Net increase (decrease)	(149,177)	$ (1,529,976)	(701,892)	$ (7,237,721)

3. TRANSACTIONS WITH AFFILIATES

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers and trustees of the Fund are also officers and/or directors of the following subsidiaries:

Subsidiary	Affiliation
Templeton Asset Management Ltd. (TAML)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager
Franklin Templeton Distributors, Inc. (Distributors)	Principal underwriter
Franklin Templeton Investor Services, LLC (Investor Services)	Transfer agent

3. TRANSACTIONS WITH AFFILIATES (continued)

a. Management Fees

The Fund pays an investment management fee to TAML based on the average daily net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
1.100%	Up to and including $1 billion
1.050%	Over $1 billion, up to and including $5 billion
1.000%	Over $5 billion, up to and including $10 billion
0.950%	Over $10 billion, up to and including $15 billion
0.900%	Over $15 billion, up to and including $20 billion
0.850%	In excess of $20 billion

b. Administrative Fees

The Fund pays an administrative fee to FT Services based on the Fund's average daily net assets as follows:

Annualized Fee Rate	Net Assets
0.150%	Up to and including $200 million
0.135%	Over $200 million, up to and including $700 million
0.100%	Over $700 million, up to and including $1.2 billion
0.075%	In excess of $1.2 billion

c. Distribution Fees

The Board has adopted distribution plans for Class 2, Class 3, and Class 4 shares pursuant to Rule 12b-1 under the 1940 Act. Under the Fund's compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to 0.25%, 0.35%, and 0.35% per year of its average daily net assets of Class 2, Class 3, and Class 4, respectively. The Board has agreed to limit the current rate to 0.25% per year for Class 3.

d. Transfer Agent Fees

Investor Services, under terms of an agreement, performs shareholder servicing for the Fund and is not paid by the Fund for the services.

4. EXPENSE OFFSET ARRANGEMENT

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the period ended June 30, 2012, there were no credits earned.

5. INCOME TAXES

For tax purposes, capital losses may be carried over to offset future capital gains, if any. Capital loss carryforwards with no expiration, if any, must be fully utilized before those losses with expiration dates.

At December 31, 2011, the Fund had capital loss carryforwards of $125,392,863 expiring in 2017.

5. INCOME TAXES (continued)

At June 30, 2012, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	$393,020,861
Unrealized appreciation	$183,711,206
Unrealized depreciation	(23,581,555)
Net unrealized appreciation (depreciation)	$160,129,651

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of foreign currency transactions, passive foreign investment company shares, corporate actions, and wash sales.

6. INVESTMENT TRANSACTIONS

Purchases and sales of investments (excluding short term securities) for the period ended June 30, 2012, aggregated $66,436,750 and $88,333,846, respectively.

7. INVESTMENTS IN INSTITUTIONAL FIDUCIARY TRUST MONEY MARKET PORTFOLIO

The Fund invests in the Institutional Fiduciary Trust Money Market Portfolio (Sweep Money Fund), an open-end investment company managed by Franklin Advisers, Inc. (an affiliate of the investment manager). Management fees paid by the Fund are reduced on assets invested in the Sweep Money Fund, in an amount not to exceed the management and administrative fees paid by the Sweep Money Fund.

8. CONCENTRATION OF RISK

Investing in foreign securities may include certain risks and considerations not typically associated with investing in U.S. securities, such as fluctuating currency values and changing local and regional economic, political and social conditions, which may result in greater market volatility. In addition, certain foreign securities may not be as liquid as U.S. securities.

9. CREDIT FACILITY

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton Investments, are borrowers in a joint syndicated senior unsecured credit facility totaling $1.5 billion (Global Credit Facility) which matures on January 18, 2013. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.08% based upon the unused portion of the Global Credit Facility, which is reflected in other expenses on the Statement of Operations. During the period ended June 30, 2012, the Fund did not use the Global Credit Facility.

10. FAIR VALUE MEASUREMENTS

The Fund follows a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Fund's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's financial instruments and are summarized in the following fair value hierarchy:

- Level 1 – quoted prices in active markets for identical financial instruments
- Level 2 – other significant observable inputs (including quoted prices for similar financial instruments, interest rates, prepayment speed, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of financial instruments)

The inputs or methodology used for valuing financial instruments are not an indication of the risk associated with investing in those financial instruments.

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing the transfers as of the date of the underlying event which caused the movement.

A summary of inputs used as of June 30, 2012, in valuing the Fund's assets and liabilities carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities:				
Closed End Funds	$ 2,305,086	$ —	$ —	$ 2,305,086
Equity Investments[a,b]	531,586,759	—	—	531,586,759
Short Term Investments	16,675,196	2,583,471	—	19,258,667
Total Investments in Securities	$550,567,041	$2,583,471	$ —	$553,150,512

[a]Includes common and preferred stocks.
[b]For detailed categories, see the accompanying Statement of Investments.

11. NEW ACCOUNTING PRONOUNCEMENTS

In December 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The amendments in the ASU enhance disclosures about offsetting of financial assets and liabilities to enable investors to understand the effect of these arrangements on a fund's financial position. The ASU is effective for interim and annual reporting periods beginning on or after January 1, 2013. The Fund believes the adoption of this ASU will not have a material impact on its financial statements.

12. SUBSEQUENT EVENTS

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure.

ABBREVIATIONS

Selected Portfolio

ADR - American Depositary Receipt
GDR - Global Depositary Receipt

Franklin Templeton Variable Insurance Products Trust

Tax Information (unaudited)

Templeton Developing Markets Securities Fund

At December 31, 2011, more than 50% of the Fund's total assets were invested in securities of foreign issuers. In most instances, foreign taxes were withheld from income paid to the Fund on these investments. As shown in the table below, the Fund hereby reports to shareholders the foreign source income and foreign taxes paid, pursuant to Section 853 of the Internal Revenue Code. This written statement will allow shareholders of record on June 14, 2012, to treat their proportionate share of foreign taxes paid by the Fund as having been paid directly by them. The shareholder shall consider these amounts as foreign taxes paid in the tax year in which they receive the Fund distribution.

The following table provides a detailed analysis of foreign tax paid, and foreign source income as reported by the Fund, to Class 1, Class 2, Class 3, and Class 4 shareholders of record.

Class	Foreign Tax Paid Per Share	Foreign Source Income Per Share
Class 1	$0.0339	$0.2177
Class 2	$0.0339	$0.1876
Class 3	$0.0339	$0.1890
Class 4	$0.0339	$0.1695

Foreign Tax Paid Per Share (Column 1) is the amount per share available to you, as a tax credit (assuming you held your shares in the Fund for a minimum of 16 days during the 31-day period beginning 15 days before the ex-dividend date of the Fund's distribution to which the foreign taxes relate), or, as a tax deduction.

Foreign Source Income Per Share (Column 2) is the amount per share of income dividends attributable to foreign securities held by the Fund, plus any foreign taxes withheld on these dividends.

The indexes are unmanaged and include reinvested distributions.

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Barclays U.S. Aggregate Index is a market capitalization-weighted index representing the U.S. investment-grade, fixed-rate, taxable bond market with index components for government and corporate, mortgage pass-through and asset-backed securities. All issues included are SEC registered, taxable, dollar denominated and nonconvertible, must have at least one year to final maturity and must be rated investment grade (Baa3/BBB-/BBB- or higher) using the middle rating of Moody's, Standard & Poor's and Fitch, respectively.

Barclays U.S. Government Index: Intermediate Component is the intermediate component of the Barclays U.S. Government Index, which includes public obligations of the U.S. Treasury with at least one year to final maturity and publicly issued debt of U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government.

Citigroup World Government Bond Index is a market capitalization-weighted index consisting of investment-grade world government bond markets.

Consumer Price Index (CPI), calculated by the U.S. Bureau of Labor Statistics, is a commonly used measure of the inflation rate.

Credit Suisse (CS) High Yield Index is designed to mirror the investable universe of the U.S. dollar-denominated high yield debt market.

Dow Jones Industrial Average is a price-weighted average of blue-chip stocks that are generally the leaders in their industry.

FTSE EPRA/NAREIT Developed Index is a free float-adjusted index designed to measure the performance of publicly traded real estate securities in the North American, European and Asian real estate markets. FTSE® is a trademark of London Stock Exchange Plc and The Financial Times Limited and is used by FTSE under license.

J.P. Morgan (JPM) Global Government Bond Index (GGBI) tracks total returns for liquid, fixed-rate, domestic government bonds with maturities greater than one year issued by developed countries globally.

Lipper Multi-Sector Income Funds Classification Average is calculated by averaging the total returns of all funds within the Lipper Multi-Sector Income Funds classification in the Lipper Open-End underlying funds universe. Lipper Multi-Sector Income Funds are defined as funds that seek current income by allocating assets among different fixed income securities sectors (not primarily in one sector except for defensive purposes), including U.S. and foreign governments, with a significant portion rated below investment grade. For the six-month period ended 6/30/12, there were 231 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

Lipper VIP Equity Income Funds Classification Average is an equally weighted average calculation of performance figures for all funds within the Lipper Equity Income Funds classification in the Lipper VIP underlying funds universe. Lipper Equity Income Funds seek relatively high current income and growth of income through investing 60% or more of their portfolios in equities. For the six-month period ended 6/30/12, there were 64 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

Lipper VIP General U.S. Government Funds Classification Average is an equally weighted average calculation of performance figures for all funds within the Lipper General U.S. Government Funds classification in the Lipper VIP underlying funds universe. Lipper General U.S. Government Funds invest primarily in U.S. government and agency issues. For the six-month period ended 6/30/12, there were 84 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

Lipper VIP High Current Yield Funds Classification Average is an equally weighted average calculation of performance figures for all funds within the Lipper High Current Yield Funds Classification in the Lipper VIP underlying funds universe. Lipper High Current Yield Funds aim at high (relative) current yield from fixed income securities, have no quality or maturity restrictions, and tend to invest in lower grade debt issues. For the six-month period ended 6/30/12, there were 123 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

MSCI All Country (AC) World Index is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed and emerging markets.

MSCI Emerging Markets (EM) Index is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global emerging markets.

MSCI Europe, Australasia, Far East (EAFE) Index is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed markets excluding the U.S. and Canada.

MSCI Europe, Australasia, Far East (EAFE) Index Net Return (Local Currency) is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance of global developed markets excluding the U.S. and Canada. The index is calculated in local currency and includes reinvested daily net dividends.

MSCI World Index is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed markets.

NASDAQ Composite Index is a broad-based, market capitalization-weighted index designed to measure all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market.

Russell 1000® Growth Index is market capitalization weighted and measures performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Index is market capitalization weighted and measures performance of the largest companies in the Russell 3000® Index, which represents the majority of the U.S. market's total capitalization.

Russell 1000® Value Index is market capitalization weighted and measures performance of those Russell 1000® Index companies with lower price-to-book ratios and lower forecasted growth values.

Russell 2500™ Index is market capitalization weighted and measures performance of the smallest companies in the Russell 3000® Index, which represent a modest amount of the Russell 3000® Index's total market capitalization.

Russell 2500™ Value Index is market capitalization weighted and measures performance of those Russell 2500™ Index companies with lower price-to-book ratios and lower forecasted growth values.

Russell 3000® Growth Index is market capitalization weighted and measures performance of those Russell 3000® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 3000® Index is market capitalization weighted and measures performance of the largest U.S. companies based on total market capitalization and represents the majority of the investable U.S. equity market.

Russell Midcap® Growth Index is market capitalization weighted and measures performance of those Russell Midcap® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell Midcap® Index is market capitalization weighted and measures performance of the smallest companies in the Russell 1000® Index, which represent a modest amount of the Russell 1000® Index's total market capitalization.

Standard & Poor's® 500 Index (S&P 500®) is a market capitalization-weighted index of 500 stocks designed to measure total U.S. equity market performance. STANDARD & POOR'S®, S&P® and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC.

Standard & Poor's/International Finance Corporation Investable (S&P/IFCI) Composite Index is a free float-adjusted, market capitalization-weighted index designed to measure equity performance in global emerging markets.

Franklin Templeton Variable Insurance Products Trust

Shareholder Information

Board Review of Investment Management Agreement

At a meeting held April 17, 2012, the Board of Trustees (Board), including a majority of non-interested or independent Trustees, approved renewal of the investment management agreement for each of the separate funds within the Trust (Fund(s)). In reaching this decision, the Board took into account information furnished throughout the year at regular Board meetings, as well as information prepared specifically in connection with the annual renewal review process. Information furnished and discussed throughout the year included investment performance reports and related financial information for each Fund, as well as periodic reports on expenses, shareholder services, legal and compliance matters, pricing, brokerage commissions and execution and other services provided by the Investment Manager (Manager) and its affiliates. Information furnished specifically in connection with the renewal process included reports prepared by Lipper, Inc. (Lipper), an independent organization, as well as additional material, including a Fund profitability analysis prepared by management. The Lipper reports compared a Fund's investment performance and expenses with those of other mutual funds deemed comparable to the Fund as selected by Lipper. The Fund profitability analysis discussed the profitability to Franklin Templeton Investments from its overall U.S. fund operations, as well as on an individual fund-by-fund basis. Additional material accompanying such profitability analysis included information on a fund-by-fund basis listing portfolio managers and other accounts they manage, as well as information on management fees charged by the Manager and its affiliates to U.S. mutual funds and other accounts, including management's explanation of differences where relevant. Such material also included a memorandum prepared by management describing project initiatives and capital investments relating to the services provided to the Funds by the Franklin Templeton Investments organization, as well as a memorandum relating to economies of scale.

In considering such materials, the independent Trustees received assistance and advice from and met separately with independent counsel. While the investment management agreements for all Funds were considered at the same Board meeting, the Board dealt with each Fund separately. In approving continuance of the investment management agreement for each Fund, the Board, including a majority of independent Trustees, determined that the existing management fee structure was fair and reasonable and that continuance of the investment management agreement was in the best interests of each Fund and its shareholders. While attention was given to all information furnished, the following discusses some primary factors relevant to the Board's decision.

NATURE, EXTENT AND QUALITY OF SERVICE. The Board was satisfied with the nature and quality of the overall services provided by the Manager and its affiliates to the Funds and their shareholders. In addition to investment performance and expenses discussed later, the Board's opinion was based, in part, upon periodic reports furnished it showing that the investment policies and restrictions for each Fund were consistently complied with as well as other reports periodically furnished the Board covering matters such as the compliance of portfolio managers and other management personnel with the code of ethics adopted throughout the Franklin Templeton fund complex, the adherence to fair value pricing procedures established by the Board, and the accuracy of net asset value calculations. Favorable consideration was given to management's continuous efforts and expenditures in establishing back-up systems and recovery procedures to function in the event of a natural disaster, it being noted that such systems and procedures had functioned smoothly during the Florida hurricanes and blackouts experienced in previous years. Among other factors taken into account by the Board were the Manager's best execution trading policies, including a favorable report by an independent portfolio trading analytical firm, which also covered FOREX transactions. Consideration was also given to the experience of each Fund's portfolio management team, the number of accounts managed and general method of compensation. In this latter respect, the Board noted that a primary factor in management's determination of a portfolio manager's bonus compensation was the relative investment performance of the funds he or she managed and that a portion of such bonus was required to be invested in a predesignated list of funds within such person's fund management area so as to be aligned with the interests of shareholders. Particular attention was given to management's conservative approach and diligent risk management procedures, including continuous monitoring of counterparty credit risk and attention given to derivatives and other complex instruments, including expanded collateralization requirements. The Board also took into account, among other things, management's efforts in establishing a global credit facility for the benefit of the Funds and other accounts managed by Franklin Templeton Investments to provide a source of cash for temporary and emergency purposes or to meet unusual redemption requests as well as the strong financial position of the Manager's parent company and its commitment to the mutual fund business as evidenced by its subsidization of money market funds.

Franklin Templeton Variable Insurance Products Trust

Shareholder Information *(continued)*

Board Review of Investment Management Agreement *(continued)*

INVESTMENT PERFORMANCE. The Board placed significant emphasis on the investment performance of each of the Funds in view of its importance to shareholders. While consideration was given to performance reports and discussions with portfolio managers at Board meetings throughout the year, particular attention in assessing performance was given to the Lipper reports furnished for the agreement renewals of all Funds. The Lipper reports prepared for each of the individual Funds showed the investment performance of Class 1 shares for those Funds having such class of shares and Class 2 shares for those Funds that did not have Class 1 shares, in comparison to a performance universe selected by Lipper. Comparative performance for each Fund was shown for the one-year period ended January 31, 2012, and previous periods ended that date of up to 10 years unless otherwise noted. Performance was shown on a total return basis for each Fund and in certain cases, as indicated, on an income return basis as well. The following summarizes the performance results for each of the Funds and the Board's view of such performance.

Franklin Flex Cap Growth Securities Fund – The performance universe for this Fund, which has been in operation for less than 10 full years, consisted of the Fund and all multi-cap growth funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's comparative total return for the one-year period to be in the second-lowest quintile of its performance universe, and on an annualized basis to be in the second-lowest quintile of such universe for the previous three-year period and the middle quintile of such universe for the previous five-year period. The Board was not satisfied with the Fund's recent underperformance and discussed the reasons for such performance and steps being taken to improve it, as well as the Fund's portfolio management team with upper management. Based on such discussions and taking into account the Fund's more acceptable longer term performance, the Board did not believe any immediate change in portfolio management was warranted, but intends to monitor future performance.

Franklin Global Real Estate Securities Fund – The performance universe for this Fund consisted of the Fund and all real estate funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's total return to be in the second-lowest quintile of such universe for the one-year period, and on an annualized basis to be in the lowest quintile of such universe for the previous three-, five- and 10-year periods. The Lipper universe includes all real estate funds underlying variable annuities and is not limited to those having a global mandate such as the Fund. The Board noted, however, among the 14 global real estate funds with 26 share classes included in such universe, that the Fund's Class 1 shares had the highest and second-highest total returns for the previous one and two years, respectively. The Board also noted steps that had been taken by management to improve the Fund's performance, including the appointment of an additional portfolio manager in 2010. While the Board intends to continue monitoring the Fund's results, it was satisfied with the efforts being made by management to improve performance and believed no change in portfolio management was warranted, noting the Fund's favorable relative performance with respect to other global real estate funds as referred to above.

Franklin Growth and Income Securities Fund – The performance universe for this Fund consisted of the Fund and all equity income funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's income return during the one-year period to be in the highest or best performing quintile of its performance universe, and on an annualized basis in each of the previous three-, five- and 10-year periods to also be in the highest quintile of such universe. The Lipper report showed the Fund's total return for the one-year period to be in the second-highest quintile of its performance universe, and on an annualized basis to be in the highest quintile of such universe for the previous three-year period, the second-highest quintile of such universe for the previous five-year period, and the second-lowest quintile of such universe for the previous 10-year period. The Board was satisfied with the Fund's performance as shown in the Lipper report.

Franklin High Income Securities Fund – The performance universe for this Fund consisted of the Fund and all high current yield funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's income return for the one-year period to be in the second-lowest quintile of such universe, and on an annualized basis to also be in the second-lowest quintile for the previous three- and five-year periods, but to be in the highest quintile of such universe for the previous 10-year period. The Lipper report showed the Fund's total return to be in the second-highest quintile of its performance universe for the one-year period, and on an annualized basis to be in the middle quintile of such universe for the previous three-year period, the second-highest quintile of such universe for the previous five-year period, and the middle quintile of such universe for the previous 10-year period. The Board believed the Fund's performance as shown in the Lipper report to be acceptable and did not

Board Review of Investment Management Agreement *(continued)*

warrant any change in portfolio management. In reaching such conclusion, the Board noted that the Fund's overall favorable comparative total returns and the level of its annualized income return, which amounted to 6.40%, 6.96%, and 7.53% for the one-, three- and five-year periods, respectively, appeared generally consistent with the Fund's investment objective of earning a high level of current income with capital appreciation as a secondary goal.

Franklin Income Securities Fund – The performance universe for this Fund consisted of the Fund and all mixed-asset target allocation moderate funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's income return to be in the highest or best performing quintile of such universe for the one-year period and to also be in the highest quintile of such universe for each of the previous three-, five- and 10-year periods on an annualized basis. The Lipper report showed the Fund's total return to be in the middle quintile of its performance universe for the one-year period and on an annualized basis to be in the highest or second-highest quintile of such universe for each of the previous three-, five- and 10-year periods. The Board was satisfied with the Fund's comparative performance as shown in the Lipper report.

Franklin Large Cap Growth Securities Fund – The performance universe for this Fund consisted of the Fund and all large-cap core funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's comparative total return to be in the upper half of such universe for the one-year period, and on an annualized basis to be in the second-lowest quintile of such universe for the previous three-year period, the second-highest quintile of such universe for the previous five-year period, and the second-lowest quintile of such universe for the previous 10-year period. The Board believed the Fund's overall performance as set forth in the Lipper report to be acceptable, noting that its three- and 10-year annualized returns in each case were within 50 basis points of the performance universe median.

Franklin Large Cap Value Securities Fund – The performance universe for this Fund, which has been in operation for less than 10 full years, consisted of the Fund and all large-cap value funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's total return to be in the lowest quintile of such universe for the one-year period and on an annualized basis to be in the second-highest quintile and middle quintile of such universe for the previous three- and five-year periods, respectively. The Board discussed with management the reasons for the Fund's one-year underperformance, including its holdings in energy stocks exposed to natural gas, which were hurt by lower gas prices, and also discussed steps being taken to improve performance, which included the addition of an experienced investment analyst to provide support for the Fund's lead manager. Based on such discussions and the Fund's longer term performance, the Board did not believe that any change in the Fund's portfolio management was warranted.

Franklin Rising Dividends Securities Fund – The performance universe for this Fund consisted of the Fund and all multi-cap core funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's comparative total return to be in the highest or best performing quintile of the performance universe for the one-year period, and on an annualized basis to be in the highest or second-highest quintile of such universe for each of the three-, five- and 10-year periods. The Board was satisfied with the Fund's performance as set forth in the Lipper report.

Franklin Small Cap Value Securities Fund – The performance universe for this Fund consisted of the Fund and all small-cap value funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's total return for the one-year period to be in the second-highest performing quintile of such performance universe, and on an annualized basis to also be in the second-highest quintile of such universe for each of the previous three- and five-year periods, and in the upper half of such universe for the previous 10-year period. The Board found the Fund's comparative performance as set forth in the Lipper report to be satisfactory.

Franklin Small-Mid Cap Growth Securities Fund – The performance universe for this Fund consisted of the Fund and all mid-cap growth funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's total return for the one-year period to be in the upper half of such universe, and on an annualized basis to also be in the upper half of such universe for each of the previous three- and five-year periods, and to be in the second-lowest quintile of such universe for the previous 10-year period. The Board found the Fund's comparative investment performance as set forth in the Lipper report to be acceptable.

Board Review of Investment Management Agreement *(continued)*

Franklin Strategic Income Securities Fund – The performance universe for this Fund consisted of the Fund and all general bond funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's income return to be in the second-highest quintile of such performance universe for the one-year period, and on an annualized basis to also be in the second-highest quintiles of such universe during the previous three- and five-year periods, and in the second-lowest quintile of such universe for the previous 10-year period. The Lipper report showed the Fund's total return to be in the second-lowest quintile of such universe during the one-year period, and on an annualized basis to be in the upper half of such universe for each of the previous three- and five-year periods, and in the highest quintile of such universe for the previous 10-year period. The Board was generally satisfied with the Fund's performance as shown in the Lipper report, noting its primary income objective and the fact that its total return for the one-year period exceeded 5%.

Franklin Templeton VIP Founding Funds Allocation Fund – The performance universe for this Fund consisted of the Fund and all mixed-asset target allocation growth funds underlying variable insurance products as selected by Lipper. The Fund has been in existence for only four full years and the Lipper report showed its income return to be in the lowest quintile of such performance universe for the one-year period, and on an annualized basis to be in the middle quintile of such universe for its four-year period of operation. The Lipper report showed the Fund's total return for the one-year period to be in the second-lowest quintile of such universe and on an annualized basis to be in the lowest quintile of such universe for its four-year period of operation. In assessing the relevance of such comparative performance, the Board noted the Fund is not actively managed and that its performance reflects those of the three underlying funds in which it invests in equal portions. The Board reviewed and discussed the performance of such underlying funds with management and believes that each is being managed in accordance with its underlying investment mandate. The Board also notes management's explanation that the performance of certain of the underlying funds reflects the general underperformance of value stocks during the past year. In view of the foregoing and taking into account the nature of the Fund and its short period of operation, the Board did not believe the Fund's comparative investment performance as set forth in the Lipper report mandated any change in the investment strategy followed or manner in which the Fund operates.

Franklin U.S. Government Fund – The performance universe for this Fund consisted of the Fund and all general U.S. government funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's income return for the one-year period to be in the second-highest quintile of such universe and on an annualized basis to be in the highest or second-highest quintile of such universe for each of the previous three-, five- and 10-year periods. The Lipper report showed the Fund's total return to be in the lowest quintile of such universe for the one-year period, and on an annualized basis to be in the lowest quintile of such universe for the previous three-year period, the second-lowest quintile of such universe for the previous five-year period, and the middle quintile of such universe for the previous 10-year period. The Board found the Fund's comparative performance as shown in the Lipper report to be acceptable, noting the Fund's income objective, the nature of the Fund's investments, which were primarily in U.S. mortgage-backed securities, and the fact that its total return exceeded 6% for the one-year period and exceeded 5% for all annualized periods shown in such report.

Mutual Global Discovery Securities Fund – The performance universe for this Fund consisted of the Fund and all global value funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's total return to be in the highest quintile of such universe for the one-year period, and on an annualized basis to be in the lowest quintile of such universe for the three-year period, but to be in the highest quintile of such universe for each of the previous five- and 10-year periods. The Board found the Fund's overall comparative performance as set forth in the Lipper report to be acceptable.

Mutual International Securities Fund – The performance universe for this Fund consisted of the Fund and all other international value funds underlying variable insurance products as selected by Lipper. The Fund has been in existence for only two full years at the date of the Lipper report, which showed its total return during each such year to be in either the highest or second-highest performing quintile of such universe. The Board was pleased with such comparative performance, but did not believe it to be particular meaningful in view of the Fund's short period of operations.

Mutual Shares Securities Fund – The performance universe for this Fund consisted of the Fund and all large-cap value funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's income return for the

Board Review of Investment Management Agreement *(continued)*

one-year period to be in the highest or best performing quintile of such universe, and on an annualized basis to be in either the highest or second-highest quintile of such universe for each of the previous three-, five- and 10-year periods. The Lipper report showed the Fund's total return for the one-year period to be in the middle quintile of the performance universe, and on an annualized basis to be in the lowest quintile of such universe for the previous three-year period, the middle quintile of such universe for the previous five-year period, and the highest quintile of such universe for the previous 10-year period. The Board found the Fund's overall performance as shown in the Lipper report to be acceptable, noting its annualized three-year total return exceeded 15%.

Templeton Developing Markets Securities Fund – The performance universe for this Fund consisted of the Fund and all emerging markets funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's comparative total return for the one-year period to be in the highest or best performing quintile of such performance universe and on an annualized basis to be in the second-highest quintile of such universe during each of the previous three- and five-year periods, and the middle quintile of such universe during the previous 10-year period. The Board was satisfied with the comparative performance of the Fund as set forth in the Lipper report.

Templeton Foreign Securities Fund – The performance universe for this Fund consisted of the Fund and all international value funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's comparative total return for the one-year period to be in the highest or best performing quintile of such performance universe and on an annualized basis to be in the highest or best performing quintile of such universe in each of the previous three- and five-year periods, and the second-highest quintile of such universe for the previous 10-year period. The Board was satisfied with the Fund's comparative investment performance as set forth in the Lipper report.

Templeton Global Bond Securities Fund – The performance universe for this Fund consisted of the Fund and all global income funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's income return for the one-year period to be in the highest or best performing quintile of such performance universe, and on an annualized basis to also be in the highest or best performing quintile of such universe for each of the previous three-, five- and 10-year periods. The Lipper report showed the Fund's total return for the one-year period to be in the second-lowest performing quintile of its performance universe, but on an annualized basis to be in the highest or second-highest quintile of such universe during each of the previous three-, five- and 10-year periods. The Board discussed with management the reasons for the relative underperformance of the Fund's total return as shown in the Lipper report for the one-year period, noting, however, that it exceeded 5%. The Board was satisfied with the Fund's comparative performance as set forth in the Lipper report.

Templeton Growth Securities Fund – The performance universe for this Fund consisted of the Fund and all global value funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's total return for the one-year period to be in the second-lowest quintile of such performance universe and on an annualized basis to also be in the second-lowest quintile of such universe for each of the previous three-, five- and 10-year periods. The Board was not satisfied with the Fund's comparative performance as set forth in the Lipper report and discussed the Fund's portfolio management team, performance and investment process in detail with upper management. Such discussion included the analytic process and reviews followed by the Fund's portfolio managers in selecting securities for investment and the conviction of the Fund's portfolio management team with the correctness of adhering to their disciplined, long-term, bottom-up, fundamental approach to investing. Based on such discussions, the Board did not believe any immediate change in portfolio management was warranted, but intends to continuously monitor future performance.

COMPARATIVE EXPENSES. Consideration was given to expense comparison information contained in the Lipper reports furnished for each Fund, which compared its management fee and total expense ratio with those of a group of other funds selected by Lipper as its appropriate Lipper expense group. Lipper expense data is based upon information taken from each fund's most recent annual report, which reflects historical asset levels that may be quite different from those currently existing, particularly in a period of market volatility. While recognizing such inherent limitation and the fact that expense ratios generally increase as assets decline and decrease as assets grow, the Board believed the independent analysis conducted by Lipper to be an appropriate measure of comparative expenses. In reviewing comparative costs, Lipper provides information on a Fund's

Board Review of Investment Management Agreement *(continued)*

contractual investment management fee rate in comparison with the contractual investment management fee rate that would have been charged by other funds within its Lipper expense group assuming they were similar in size to the Fund, as well as the actual total expense ratio of the Fund in comparison with those of its Lipper expense group. The Lipper contractual investment management fee analysis includes administrative charges at the fund level as being part of a management fee, and actual total expenses, for comparative consistency, are shown by Lipper for the same class of shares for all funds within a particular Lipper expense group. The results of such comparisons showed that both the contractual investment management fee rates and actual total expense ratios of the following Funds were in the least expensive quintile of their respective Lipper expense groups: Franklin Income Securities Fund, Franklin Small Cap Value Securities Fund, Franklin Growth and Income Securities Fund, Franklin High Income Securities Fund, Franklin Strategic Income Securities Fund and Templeton Global Bond Securities Fund. The Board was satisfied with the comparative contractual investment management fees and expenses of these Funds as shown in their Lipper reports. The contractual investment management fee rates and actual total expense ratios of each of Franklin Rising Dividend Securities Fund, Franklin Small-Mid Cap Growth Securities Fund and Franklin U.S. Government Fund were below the medians of their Lipper expense groups. The contractual investment management fee rate of Templeton Foreign Securities Fund was less than one-half of a basis point above the median of its Lipper expense group, while its actual total expense ratio was below the median of such group. The contractual investment fee rate and actual total expense ratio of Franklin Templeton VIP Founding Funds Allocation Fund were both at the median of its Lipper expense group. The Board was satisfied with the comparative contractual investment management fees and expenses of these Funds as shown in their Lipper reports. The contractual investment management fee rates for Mutual International Securities Fund, Templeton Growth Securities Fund and Franklin Large Cap Value Securities Fund were in the most expensive quintiles of their Lipper expense groups, but in each case their actual total expense ratios were below the median of such groups. The Board was satisfied with the comparative expenses of these Funds as shown in their Lipper reports, noting that, with the exception of Templeton Growth Securities Fund, the expenses of these Funds were subsidized through fee waivers. The contractual investment management fee rate of Franklin Flex Cap Growth Securities Fund was 13 basis points above its Lipper expense group median, while its actual total expense ratio was below its expense group median. The Board found the comparative expenses of this Fund as shown in its Lipper report to be acceptable, noting its expenses were subsidized through fee waivers. The contractual investment management fee rate and actual expense ratio for Franklin Large Cap Growth Securities Fund were in each case above but within eight basis points of the median of its Lipper expense group. The contractual investment fee rate of Franklin Global Real Estate Securities Fund was 20 basis points higher than the median of its Lipper expense group while its actual expense ratio was within nine basis points of its expense group median. The Board found the comparative expenses of these Funds as shown in their Lipper reports to be acceptable, noting with respect to Franklin Global Real Estate Securities Fund that a phased-in increase in its contractual investment fee rate had been approved by shareholders in 2007. The contractual investment management fee rate and actual total expense ratio of Templeton Developing Markets Securities Fund were both above the median of its Lipper expense group, but in each case were within 17 basis points of such median. The Board found the comparative expenses of this Fund to be acceptable, noting cost factors relating to the Fund's operations, such as the quality and experience of its portfolio managers and research staff and the depth of its physical presence and coverage in developing markets geographical areas, as well as the fact that its investment management fee had been reduced effective May 1, 2011. The contractual investment management fee rates of both Mutual Global Discovery Securities Fund and Mutual Shares Securities Fund were in the most expensive quintiles of their Lipper expense groups, while the actual total expense ratio of Mutual Global Discovery Fund was 17 basis points above its expense group median, and the actual total expense ratio of Mutual Shares Securities Fund was four basis points above its expense group median. In discussing these comparative expenses, management stated its view that the expenses of these Funds were at an appropriate level in view of their overall favorable comparative investment performance, the quality and experience of their portfolio managers and the research-driven fundamental value strategy employed in their portfolio selections. The Board found the comparative expenses of these Funds to be acceptable noting the points raised by management.

MANAGEMENT PROFITABILITY. The Board also considered the level of profits realized by the Manager and its affiliates in connection with the operation of each Fund. In this respect, the Board reviewed the Fund profitability analysis that addresses the overall profitability of Franklin Templeton's U.S. fund business, as well as its profits in providing management and other services to each of the individual funds during the 12-month period ended September 30, 2011, being the most recent fiscal year-end for Franklin Resources, Inc., the Manager's parent. In reviewing the analysis, specific attention was given to the methodology

Shareholder Information *(continued)*

Board Review of Investment Management Agreement *(continued)*

followed in allocating costs to each Fund, it being recognized that allocation methodologies are inherently subjective and various allocation methodologies may each be reasonable while producing different results. In this respect, the Board noted that, while being continuously refined and reflecting changes in the Manager's own cost accounting, the allocation methodology was consistent with that followed in profitability report presentations for the Funds made in prior years and that the Funds' independent registered public accounting firm had been engaged by the Manager to review the reasonableness of the allocation methodologies solely for use by the Funds' Board in reference to the profitability analysis. In reviewing and discussing such analysis, management discussed with the Board its belief that costs incurred in establishing the infrastructure necessary for the type of mutual fund operations conducted by the Manager and its affiliates may not be fully reflected in the expenses allocated to each Fund in determining its profitability, as well as the fact that the level of profits, to a certain extent, reflected operational cost savings and efficiencies initiated by management. The Board also took into account management's expenditures in improving services provided the Funds, as well as the need to implement systems to meet additional regulatory and compliance requirements resulting from statutes such as the Sarbanes-Oxley and Dodd-Frank Acts and recent SEC and other regulatory requirements. In addition, the Board considered a third-party study comparing the profitability of the Manager's parent on an overall basis to other publicly held managers broken down to show profitability from management operations exclusive of distribution expenses, as well as profitability including distribution expenses. The Board also considered the extent to which the Manager and its affiliates might derive ancillary benefits from Fund operations, including potential benefits resulting from allocation of fund brokerage and the use of commission dollars to pay for research. Based upon its consideration of all these factors, the Board determined that the level of profits realized by the Manager and its affiliates from providing services to each Fund was not excessive in view of the nature, quality and extent of services provided.

ECONOMIES OF SCALE. The Board also considered whether economies of scale are realized by the Manager as the Funds grow larger and the extent to which this is reflected in the level of management fees charged. While recognizing that any precise determination is inherently subjective, the Board noted that based upon the Fund profitability analysis, it appears that as some funds get larger, at some point economies of scale do result in the Manager realizing a larger profit margin on management services provided such a fund. The Board also noted that economies of scale are shared with a fund and its shareholders through management fee breakpoints so that as a fund grows in size, its effective management fee rate declines. In the case of Franklin Templeton VIP Founding Funds Allocation Fund, the management fees of the underlying funds in which it invests have management fee breakpoints that extend beyond their existing asset sizes, and in the case of each of the other Funds, their management fees contain breakpoints that extend beyond their existing asset sizes. To the extent economies of scale may be realized by the manager and its affiliates, the Board believed the schedule of investment management fees provides a sharing of benefits for each Fund and its shareholders.

Proxy Voting Policies and Procedures

The Trust's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Trust uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Trust's complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Trust's proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission's website at sec.gov and reflect the most recent 12-month period ended June 30.

Quarterly Statement of Investments

The Trust files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

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VALUE | BLEND | GROWTH | SECTOR | GLOBAL | INTERNATIONAL | HYBRID | ASSET ALLOCATION | FIXED INCOME

FRANKLIN TEMPLETON INVESTMENTS

< GAIN FROM OUR PERSPECTIVE® >

Semiannual Report

Franklin Templeton Variable Insurance Products Trust

Investment Managers
Franklin Advisers, Inc.
Franklin Advisory Services, LLC
Franklin Mutual Advisers, LLC
Franklin Templeton Institutional, LLC
Templeton Asset Management, Ltd.
Templeton Global Advisors Limited
Templeton Investment Counsel, LLC

Fund Administrator
Franklin Templeton Services, LLC

Distributor
Franklin Templeton Distributors, Inc.

Franklin Templeton Variable Insurance Products Trust (FTVIP) shares are not offered to the public; they are offered and sold only to: (1) insurance company separate accounts (Separate Account) to serve as the underlying investment vehicle for variable contracts; (2) certain qualified plans; and (3) other mutual funds (funds of funds).

Authorized for distribution to investors in Separate Accounts only when accompanied or preceded by the current prospectus for the applicable contract, which includes the Separate Account and the FTVIP prospectuses. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information; please read it carefully before investing.

To ensure the highest quality of service, telephone calls to or from our service departments may be monitored, recorded and accessed. These calls can be identified by the presence of a regular beeping tone.

VIP S 08/12

Invesco V.I. Utilities Fund

Semiannual Report to Shareholders ■ June 30, 2012

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 website, sec.gov. Copies of the Fund's Forms N-Q may be reviewed and copied at the SEC Public Reference Room in Washington, D.C. You can obtain information on the operation of the Public Reference Room, including information about duplicating fee charges, by calling 202 551 8090 or 800 732 0330, or by electronic request at the following email address: publicinfo@sec.gov. The SEC file numbers for the Fund are 811-07452 and 033-57340. 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 800 959 4246 or at invesco.com/proxyguidelines. The information is also available on the SEC website, sec.gov.

Information regarding how the Fund voted proxies related to its portfolio securities during the 12 months ended June 30, 2012, is available at invesco.com/proxysearch. The information is also available on the SEC website, sec.gov.

Invesco Advisers, Inc. is an investment adviser; it provides investment advisory services to individual and institutional clients and does not sell securities. Invesco Distributors, Inc. is the US distributor for Invesco Ltd.'s retail mutual funds, exchange-traded funds and institutional money market funds. Both are wholly owned, indirect subsidiaries of Invesco Ltd.

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.

Invesco Distributors, Inc.

I-VIUTI-SAR-1

Fund Performance

Performance summary

Fund vs. Indexes

Cumulative total returns, 12/31/11 to 6/30/12, excluding variable product issuer charges. If variable product issuer charges were included, returns would be lower.

Series I Shares	3.82%
Series II Shares	3.73
S&P 500 Index▼ (Broad Market Index)	9.49
S&P 500 Utilities Index▼ (Style-Specific Index)	4.82
Lipper VUF Utility Funds Category Average▼ (Peer Group)	4.89

Source(s): ▼Lipper Inc.

The **S&P 500® Index** is an unmanaged index considered representative of the US stock market.

The **S&P 500 Utilities Index** is an unmanaged index considered representative of the utilities market.

The **Lipper VUF Utility Funds Category Average** represents an average of all of the variable insurance underlying funds in the Lipper Utility Funds category.

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

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 the peer group, if applicable, reflects fund expenses; performance of a market index does not.

Series II shares incepted on April 30, 2004. Performance shown prior to that date is that of Series I shares, restated to reflect the higher 12b-1 fees applicable to Series II. Series I performance reflects any applicable fee waivers or expense reimbursements. The performance of the Fund's Series I and Series II share classes will differ primarily due to different class expenses.

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 adviser 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.

The total annual Fund operating expense ratio set forth in the most recent Fund prospectus as of the date of this report for Series I and Series II shares was 1.04% and 1.29%, respectively. The expense ratios presented above may vary from the expense ratios presented in other sections of this report that are based on expenses incurred during the period covered by this report.

Invesco V.I. Utilities Fund, a series portfolio of AIM Variable Insurance Funds (Invesco 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.

The most recent month-end performance data at the Fund level, excluding variable product charges, is available at 800 451 4246. As mentioned above, for the most recent month-end performance including variable product charges, please contact your variable product issuer or financial adviser.

Average Annual Total Returns

As of 6/30/12

Series I Shares	
Inception (12/30/94)	7.06%
10 Years	9.20
5 Years	1.34
1 Year	9.29
Series II Shares	
10 Years	8.93%
5 Years	1.10
1 Year	9.05

Schedule of Investments[a]

June 30, 2012
(Unaudited)

	Shares	Value
Common Stocks–95.66%		
Electric Utilities–54.39%		
American Electric Power Co., Inc.	86,745	$ 3,461,125
Duke Energy Corp.[b]	99,961	2,305,101
E.ON AG (Germany)	53,357	1,148,517
Edison International	60,834	2,810,531
Entergy Corp.	38,823	2,635,693
Exelon Corp.	108,475	4,080,829
FirstEnergy Corp.	35,863	1,764,101
NextEra Energy, Inc.	11,927	820,697
Northeast Utilities	56,909	2,208,638
Pepco Holdings, Inc.	171,322	3,352,772
Pinnacle West Capital Corp.	23,157	1,198,143
Portland General Electric Co.	129,466	3,451,564
PPL Corp.	60,234	1,675,108
Progress Energy, Inc.	14,637	880,708
Southern Co. (The)	79,108	3,662,700
Xcel Energy, Inc.	123,158	3,498,919
		38,955,146
Gas Utilities–6.28%		
AGL Resources Inc.	47,535	1,841,981
Atmos Energy Corp.	22,316	782,622
ONEOK, Inc.	10,984	464,733
UGI Corp.	47,738	1,404,930
		4,494,266
Independent Power Producers & Energy Traders–4.63%		
Calpine Corp.[b]	106,319	1,755,327
NRG Energy, Inc.[b]	90,028	1,562,886
		3,318,213
Integrated Telecommunication Services–4.88%		
AT&T Inc.	26,370	$ 940,354
CenturyLink Inc.	25,623	1,011,852
Verizon Communications Inc.	34,799	1,546,468
		3,498,674
Multi-Utilities–25.48%		
CMS Energy Corp.	31,778	746,783
Consolidated Edison, Inc.	9,005	560,021
Dominion Resources, Inc.	58,159	3,140,586
DTE Energy Co.	24,967	1,481,292
National Grid PLC (United Kingdom)	320,668	3,392,348
NiSource Inc.	27,525	681,244
PG&E Corp.	42,228	1,911,662
Public Service Enterprise Group Inc.	43,704	1,420,380
Sempra Energy	37,558	2,586,995
TECO Energy, Inc.	128,807	2,326,254
		18,247,565
Total Common Stocks (Cost $54,312,260)		68,513,864
Money Market Funds–3.93%		
Liquid Assets Portfolio–Institutional Class[c]	1,408,393	1,408,393
Premier Portfolio–Institutional Class[c]	1,408,393	1,408,393
Total Money Market Funds (Cost $2,816,786)		2,816,786
TOTAL INVESTMENTS–99.59% (Cost $57,129,046)		71,330,650
OTHER ASSETS LESS LIABILITIES–0.41%		292,890
NET ASSETS–100.00%		$71,623,540

Notes to Schedule of Investments:

(a) Industry and/or sector 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 MSCI Inc. and Standard & Poor's.
(b) Non-income producing security.
(c) The money market fund and the Fund are affiliated by having the same investment adviser.

Portfolio Composition

By sector, based on Net Assets
as of June 30, 2012

Utilities	90.8%
Telecommunication Services	4.9
Money Market Funds Plus Other Assets Less Liabilities	4.3

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

Statement of Assets and Liabilities

June 30, 2012
(Unaudited)

Assets:	
Investments, at value (Cost $54,312,260)	$68,513,864
Investments in affiliated money market funds, at value and cost	2,816,786
Total investments, at value (Cost $57,129,046)	71,330,650
Receivable for:	
Fund shares sold	149,038
Dividends	377,440
Investment for trustee deferred compensation and retirement plans	45,691
Other assets	988
Total assets	71,903,807
Liabilities:	
Payable for:	
Fund shares reacquired	160,427
Accrued fees to affiliates	40,464
Accrued other operating expenses	18,385
Trustee deferred compensation and retirement plans	60,991
Total liabilities	280,267
Net assets applicable to shares outstanding	$71,623,540
Net assets consist of:	
Shares of beneficial interest	$51,208,812
Undistributed net investment income	3,235,072
Undistributed net realized gain	2,979,527
Unrealized appreciation	14,200,129
	$71,623,540
Net Assets:	
Series I	$69,782,305
Series II	$ 1,841,235
Shares outstanding, $0.001 par value per share, with an unlimited number of shares authorized:	
Series I	4,015,268
Series II	106,767
Series I:	
Net asset value per share	$ 17.38
Series II:	
Net asset value per share	$ 17.25

Statement of Operations

For the six months ended June 30, 2012
(Unaudited)

Investment income:	
Dividends (net of foreign withholding taxes of $10,525)	$1,473,490
Dividends from affiliated money market funds	2,781
Total investment income	1,476,271
Expenses:	
Advisory fees	208,072
Administrative services fees	101,139
Custodian fees	2,639
Distribution fees — Series II	2,222
Transfer agent fees	9,228
Trustees' and officers' fees and benefits	11,927
Other	20,584
Total expenses	355,811
Less: Fees waived	(22,672)
Net expenses	333,139
Net investment income	1,143,132
Realized and unrealized gain (loss) from:	
Net realized gain (loss) from:	
Investment securities	780,168
Foreign currencies	(578)
	779,590
Change in net unrealized appreciation (depreciation) of:	
Investment securities	648,660
Foreign currencies	(1,255)
	647,405
Net realized and unrealized gain	1,426,995
Net increase in net assets resulting from operations	$2,570,127

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

Statement of Changes in Net Assets

For the six months ended June 30, 2012 and the year ended December 31, 2011
(Unaudited)

	June 30, 2012	December 31, 2011
Operations:		
Net investment income	$ 1,143,132	$ 2,155,650
Net realized gain	779,590	3,889,415
Change in net unrealized appreciation	647,405	4,252,499
Net increase in net assets resulting from operations	2,570,127	10,297,564
Distributions to shareholders from net investment income:		
Series I	—	(2,123,528)
Series II	—	(57,674)
Total distributions from net investment income	—	(2,181,202)
Share transactions–net:		
Series I	(3,679,692)	(898,765)
Series II	(100,408)	(34,322)
Net increase (decrease) in net assets resulting from share transactions	(3,780,100)	(933,087)
Net increase (decrease) in net assets	(1,209,973)	7,183,275
Net assets:		
Beginning of period	72,833,513	65,650,238
End of period (includes undistributed net investment income of $3,235,072 and $2,091,940, respectively)	$71,623,540	$72,833,513

Notes to Financial Statements

June 30, 2012
(Unaudited)

NOTE 1—Significant Accounting Policies

Invesco V.I. Utilities Fund (the "Fund") is a series portfolio of AIM Variable Insurance Funds (Invesco 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-five separate portfolios, (each constituting a "Fund"). The assets, liabilities and operations of each portfolio are accounted for separately. Information presented in these financial statements pertains only to the Fund. Matters affecting each Fund or class will be voted on exclusively by the shareholders of such Fund 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 Fund or class.

The Fund's investment objective is long-term growth of capital and, secondarily, current income.

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").

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 or official closing price as of the close of the customary trading session on the exchange where the security is principally traded, or lacking any sales or official closing price on a particular day, the security may be valued at the closing bid price on that day. Securities traded in the over-the-counter market are valued based on prices furnished by independent pricing services or market makers. When such securities are valued by an independent pricing service they may be considered fair valued. 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 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 are valued 15 minutes after the close of the customary trading session of the New York Stock Exchange ("NYSE").

Investments in open-end 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 open-end and closed-end registered investment companies that trade on an exchange are valued at the last sales price or official closing price as of the close of the customary trading session on the exchange where the security is principally traded.

Debt obligations (including convertible bonds) and unlisted equities 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. Debt securities are subject to interest rate and credit risks. In addition, all debt securities involve some risk of default with respect to interest and/or principal payments.

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. If market quotations are available and reliable for foreign exchange traded equity securities, the securities will be valued at the market quotations. Because trading hours for certain foreign securities end before the close of the NYSE, closing market quotations may become unreliable. If between the time trading ends on a particular security and the close of the customary trading session on the NYSE, events occur that are significant and make the closing price unreliable, the Fund may fair value the security. 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 trade is not the current value as of the close of the NYSE. Foreign securities meeting the approved degree of certainty that the price is not reflective of current 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, American Depositary Receipts and domestic and foreign index futures. Foreign securities may have additional risks including exchange rate changes, potential for sharply devalued currencies and high inflation, political and economic upheaval, the relative lack of issuer information, relatively low market liquidity and the potential lack of strict financial and accounting controls and standards.

Securities for which market prices are not provided by any of the above methods may be valued based upon quotes furnished by independent sources. The last bid price may be used to value equity securities. The mean between the last bid and asked prices is used to value debt obligations, including corporate loans.

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.

Valuations change in response to many factors including the historical and prospective earnings of the issuer, the value of the issuer's assets, general economic conditions, interest rates, investor perceptions and market liquidity. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

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 (net of withholding tax, if any) is recorded on the ex-dividend date.

The Fund may periodically participate in litigation related to Fund investments. As such, the Fund may receive proceeds from litigation settlements. Any proceeds received are included in the Statement of Operations as realized gain (loss) for investments no longer held and as unrealized gain (loss) for investments still held.

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 net realized and unrealized gain (loss) from investment securities reported in the Statement of Operations and the Statement of Changes in Net Assets and the net realized and unrealized 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 investment adviser.

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. Country Determination — For the purposes of making investment selection decisions and presentation in the Schedule of Investments, the investment adviser may determine the country in which an issuer is located and/or credit risk exposure based on various factors. These factors include the laws of the country under which the issuer is organized, where the issuer maintains a principal office, the country in which the issuer derives 50% or more of its total revenues and the country that has the primary market for the issuer's securities, as well as other criteria. Among the other criteria that may be evaluated for making this determination are the country in which the issuer maintains 50% or more of its assets, the type of security, financial guarantees and enhancements, the nature of the collateral and the sponsor organization. Country of issuer and/or credit risk exposure has been determined to be the United States of America, unless otherwise noted.

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

E. 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 to distribute substantially all of the Fund's taxable earnings to shareholders. As such, the Fund will not be subject to federal income taxes on otherwise taxable income (including net realized capital gain) that is distributed to shareholders. Therefore, no provision for federal income taxes is recorded in the financial statements.

The Fund files tax returns in the U.S. Federal jurisdiction and certain other jurisdictions. Generally, the Fund is subject to examinations by such taxing authorities for up to three years after the filing of the return for the tax period.

F. 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.

G. Accounting Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period including estimates and assumptions related to taxation. Actual results could differ from those estimates by a significant amount. In addition, the Fund monitors for material events or transactions that may occur or become known after the period-end date and before the date the financial statements are released to print.

H. Indemnifications — Under the Trust's organizational documents, each Trustee, officer, employee or other agent of the Trust is indemnified against certain liabilities that may arise out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts, including the Fund's servicing agreements, 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. The risk of material loss as a result of such indemnification claims is considered remote.

I. Other Risks — The Fund's investments are concentrated in a comparatively narrow segment of the economy, which may make the Fund more volatile.

The Fund may invest a large percentage of its assets in a limited number of securities or other instruments, which could negatively affect the value of the Fund.

The following factors may affect the Fund's investments in the utilities sector: governmental regulation, economic factors, ability of the issuer to obtain financing, prices of natural resources and risks associated with nuclear power.

J. 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 (1) sales of foreign currencies, (2) currency gains or losses realized between the trade and settlement dates on securities transactions, and (3) 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.

The Fund may invest in foreign securities which may be subject to foreign taxes on income, gains on investments or currency repatriation, a portion of which may be recoverable.

K. Foreign Currency Contracts — The Fund may enter into foreign currency contracts to manage or minimize currency or exchange rate risk. The Fund may also enter into foreign currency contracts 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. A foreign currency contract is an obligation to purchase or sell a specific currency for an agreed-upon price at a future date. The use of foreign currency contracts does not eliminate fluctuations in the price of the underlying securities the Fund owns or intends to acquire but establishes a rate of exchange in advance. Fluctuations in the value of these contracts are measured by the difference in the contract date and reporting date exchange rates and are recorded as unrealized appreciation (depreciation) until the contracts are closed. When the contracts are closed, realized gains (losses) are recorded. Realized and unrealized gains (losses) on the contracts are included in the Statement of Operations. The primary risks associated with foreign currency contracts include failure of the counterparty to meet the terms of the contract and the value of the foreign currency changing unfavorably. These risks may be in excess of the amounts reflected in the Statement of Assets and Liabilities.

NOTE 2—Advisory Fees and Other Fees Paid to Affiliates

The Trust has entered into a master investment advisory agreement with Invesco Advisers, Inc. (the "Adviser" or "Invesco"). Under the terms of the investment advisory agreement, the Fund pays an advisory fee to the Adviser based on the annual rate of 0.60% of the Fund's average daily net assets.

Under the terms of a master sub-advisory agreement between the Adviser and each of Invesco Asset Management Deutschland GmbH, Invesco Asset Management Limited, Invesco Asset Management (Japan) Limited, Invesco Australia Limited, Invesco Hong Kong Limited, Invesco Senior Secured Management, Inc. and Invesco Canada Ltd. (collectively, the "Affiliated Sub-Advisers") the Adviser, not the Fund, may pay 40% of the fees paid to the Adviser to any such Affiliated Sub-Adviser(s) that provide discretionary investment management services to the Fund based on the percentage of assets allocated to such Sub-Adviser(s).

Effective July 1, 2012, the Adviser has contractually agreed, through at least June 30, 2013, to waive advisory fees and/or reimburse expenses to the extent necessary to limit total annual fund operating expenses after fee waiver and/or expense reimbursement (excluding certain items discussed below) of Series I shares to 2.00% and Series II shares to 2.25% of average daily net assets. The Adviser had contractually agreed, through April 30, 2012, to waive advisory fees and/or reimburse expenses to the extent necessary to limit total annual fund operating expenses after fee waiver and/or expense reimbursement (excluding certain items discussed below) of Series I shares to 0.93% and Series II shares to 1.18% of average daily net assets. In determining the Adviser'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 after fee waiver and/or expense reimbursement to exceed the numbers reflected above: (1) interest; (2) taxes; (3) dividend expense on short sales; (4) extraordinary or non-routine items, including litigation expenses; and (5) expenses that the Fund has incurred but did not actually pay because of an expense offset arrangement. Unless the Board of the Trustees and Invesco mutually agree to amend or continue the fee waiver agreement, it will terminate on June 30, 2013.

Further, the Adviser has contractually agreed, through at least June 30, 2013, to waive the advisory fee payable by the Fund in an amount equal to 100% of the net advisory fees the Adviser receives from the affiliated money market funds on investments by the Fund of uninvested cash in such affiliated money market funds.

For the six months ended June 30, 2012, the Adviser waived advisory fees of $22,672.

The Trust has entered into a master administrative services agreement with Invesco pursuant to which the Fund has agreed to pay Invesco a fee for costs incurred in providing accounting services and fund administrative services to the Fund and to reimburse Invesco 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 the participants; and the servicing of participants' accounts. Pursuant to such agreement, for the six months ended June 30, 2012, Invesco was paid $24,863 for accounting and fund administrative services and reimbursed $76,276 for services provided by insurance companies.

The Trust has entered into a transfer agency and service agreement with Invesco Investment Services, Inc. ("IIS") pursuant to which the Fund has agreed to pay IIS a fee for providing transfer agency and shareholder services to the Fund and reimburse IIS for certain expenses incurred by IIS in the course of providing such services. For the six months ended June 30, 2012, expenses incurred under the agreement are shown in the Statement of Operations as *Transfer agent fees*.

The Trust has entered into a master distribution agreement with Invesco Distributors, Inc. ("IDI") 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 IDI compensation at the annual rate of 0.25% of the Fund's average daily net assets of Series II shares. Of the Plan payments, 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. For the six months ended June 30, 2012, expenses incurred under the Plan are detailed in the Statement of Operations as *Distribution fees*.

Certain officers and trustees of the Trust are officers and directors of the Adviser, IIS and/or IDI.

NOTE 3—Additional Valuation Information

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, under current market conditions. GAAP establishes a hierarchy that prioritizes the inputs to valuation methods giving the highest priority to readily available unadjusted quoted prices in an active market for identical assets (Level 1) and the lowest priority to significant unobservable inputs (Level 3) generally when market prices are not readily available or are unreliable. Based on the valuation inputs, the securities or other investments are tiered into one of three levels. Changes in valuation methods may result in transfers in or out of an investment's assigned level:

Level 1 — Prices are determined using quoted prices in an active market for identical assets.

Level 2 — Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, yield curves, loss severities, default rates, discount rates, volatilities and others.

Level 3 — Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Fund's own assumptions about the factors market participants would use in determining fair value of the securities or instruments and would be based on the best available information.

The following is a summary of the tiered valuation input levels, as of June 30, 2012. The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

	Level 1	Level 2	Level 3	Total
Equity Securities	$70,182,133	$1,148,517	$—	$71,330,650

NOTE 4—Trustees' and Officers' Fees and Benefits

"Trustees' and Officers' Fees and Benefits" include amounts accrued by the Fund to pay remuneration to certain Trustees and Officers of the Fund. Trustees have the option to defer compensation payable by the Fund, and "Trustees' and Officers' 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 Invesco Funds in which their deferral accounts shall be deemed to be invested. Finally, certain 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 Officers' 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.

NOTE 5—Cash Balances

The Fund is permitted to temporarily carry a negative or overdrawn balance in its account with State Street Bank and Trust Company, the custodian bank. Such balances, if any at period end, are shown in the Statement of Assets and Liabilities under the payable caption *Amount due custodian*. To compensate the custodian bank for such overdrafts, the overdrawn Fund may either (1) leave funds as a compensating balance in the account so the custodian bank can be compensated by earning the additional interest; or (2) compensate by paying the custodian bank at a rate agreed upon by the custodian bank and Invesco, not to exceed the contractually agreed upon rate.

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 Regulated Investment Company Modernization Act of 2010 (the "Act") eliminated the eight-year carryover period for capital losses that arise in taxable years beginning after its enactment date of December 22, 2010. Consequently, these capital losses can be carried forward for an unlimited period. However, capital losses with an expiration period may not be used to offset capital gains until all net capital losses without an expiration date have been utilized. Additionally, post-enactment capital loss carryovers will retain their character as either short-term or long-term capital losses instead of as short-term capital losses as under prior law. 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.

The Fund did not have a capital loss carryforward as of December 31, 2011.

NOTE 7—Investment Securities

The aggregate amount of investment securities (other than short-term securities, U.S. Treasury obligations and money market funds, if any) purchased and sold by the Fund during the six months ended June 30, 2012 was $1,528,570 and $2,120,310, respectively. Cost of investments on a tax basis includes the adjustments for financial reporting purposes as of the most recently completed federal income tax reporting period-end.

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

Aggregate unrealized appreciation of investment securities	$15,107,454
Aggregate unrealized (depreciation) of investment securities	(1,161,241)
Net unrealized appreciation of investment securities	$13,946,213

Cost of investments for tax purposes is $57,384,437.

NOTE 8—Share Information

	Summary of Share Activity			
	Six months ended June 30, 2012[a]		Year ended December 31, 2011	
	Shares	Amount	Shares	Amount
Sold:				
Series I	347,183	$ 5,741,193	951,541	$ 15,210,526
Series II	3,077	50,415	16,357	261,142
Issued as reinvestment of dividends:				
Series I	—	—	136,473	2,123,528
Series II	—	—	3,727	57,674
Reacquired:				
Series I	(571,527)	(9,420,885)	(1,149,620)	(18,232,819)
Series II	(9,241)	(150,823)	(22,568)	(353,138)
Net increase (decrease) in share activity	(230,508)	$(3,780,100)	(64,090)	$ (933,087)

(a) There are entities that are record owners of more than 5% of the outstanding shares of the Fund and in the aggregate own 47% of the outstanding shares of the Fund. The Fund and the Fund's principal underwriter or adviser, 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, Invesco and/or Invesco affiliates may make payments to these entities, which are considered to be related to the Fund, for providing services to the Fund, Invesco and/or Invesco affiliates including but not limited to services such as, securities brokerage, third party record keeping and account servicing and administrative services. The Fund has no knowledge as to whether all or any portion of the shares owned of record by these entities are also owned beneficially.

NOTE 9—Financial Highlights

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

	Net asset value, beginning of period	Net Investment income[(a)]	Net gains (losses) on securities (both realized and unrealized)	Total from investment operations	Dividends from net investment income	Distributions from net realized gains	Total distributions	Net asset value, end of period	Total return[(b)]	Net assets, end of period (000s omitted)	Ratio of expenses to average net assets with fee waivers and/or expenses absorbed	Ratio of expenses to average net assets without fee waivers and/or expenses absorbed	Ratio of net investment income to average net assets	Portfolio turnover[(c)]
Series I														
Six months ended 06/30/12	$16.74	$0.27	$ 0.37	$ 0.64	$ —	$ —	$ —	$17.38	3.82%	$ 69,782	0.95%[(d)]	1.02%[(d)]	3.31%[(d)]	2%
Year ended 12/31/11	14.87	0.51	1.90	2.41	(0.54)	—	(0.54)	16.74	16.45	70,956	0.92	1.04	3.23	14
Year ended 12/31/10	14.51	0.47	0.43	0.90	(0.54)	—	(0.54)	14.87	6.30	63,945	0.92	1.04	3.25	13
Year ended 12/31/09	13.38	0.45	1.53	1.98	(0.68)	(0.17)	(0.85)	14.51	14.93	70,671	0.93	1.04	3.35	14
Year ended 12/31/08	23.97	0.52	(8.36)	(7.84)	(0.59)	(2.16)	(2.75)	13.38	(32.35)	80,704	0.93	0.96	2.53	15
Year ended 12/31/07	21.23	0.47	3.94	4.41	(0.47)	(1.20)	(1.67)	23.97	20.64	155,748	0.93	0.94	1.97	30
Series II														
Six months ended 06/30/12	16.63	0.25	0.37	0.62	—	—	—	17.25	3.73	1,841	1.20[(d)]	1.27[(d)]	3.06[(d)]	2
Year ended 12/31/11	14.78	0.47	1.88	2.35	(0.50)	—	(0.50)	16.63	16.15	1,878	1.17	1.29	2.98	14
Year ended 12/31/10	14.43	0.43	0.42	0.85	(0.50)	—	(0.50)	14.78	6.01	1,706	1.17	1.29	3.00	13
Year ended 12/31/09	13.30	0.41	1.52	1.93	(0.63)	(0.17)	(0.80)	14.43	14.61	1,702	1.18	1.29	3.10	14
Year ended 12/31/08	23.80	0.46	(8.28)	(7.82)	(0.52)	(2.16)	(2.68)	13.30	(32.51)	1,717	1.18	1.21	2.28	15
Year ended 12/31/07	21.12	0.41	3.91	4.32	(0.44)	(1.20)	(1.64)	23.80	20.32	3,293	1.18	1.19	1.72	30

(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, if applicable and do not reflect charges assessed in connection with a variable product, which if included would reduce total returns.

(c) Portfolio turnover is calculated at the fund level and is not annualized for periods less than one year, if applicable.

(d) Ratios are annualized and based on average daily net assets (000's) of $67,951 and $1,788 for Series I and Series II shares, respectively.

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, 2012 through June 30, 2012.

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 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)		
Class	**Beginning Account Value (01/01/12)**	**Ending Account Value (06/30/12)[1]**	**Expenses Paid During Period[2,3]**	**Ending Account Value (06/30/12)**	**Expenses Paid During Period[2,4]**	**Annualized Expense Ratio[2]**
Series I	$1,000.00	$1,038.20	$4.84	$1,020.12	$4.79	0.95%
Series II	1,000.00	1,037.30	6.10	1,018.88	6.04	1.20

1 The actual ending account value is based on the actual total return of the Fund for the period January 1, 2012 through June 30, 2012, 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.

2 Expenses are equal to the Fund's annualized expense ratio as indicated above multiplied by the average account value over the period, multiplied by 182/366 to reflect the most recent fiscal half year. Effective July 1, 2012, the Fund's adviser has contractually agreed to waive advisory fees and/or reimburse expenses to the extent necessary to limit Total Annual Fund Operating Expense of Series I and Series II shares to 2.00% and 2.25% of average daily net assets, respectively. The annualized expense ratios restated as if these agreements had been in effect throughout the entire most recent fiscal half year are 1.01% and 1.26% for Series I and Series II shares, respectively.

3 The actual expenses paid restated as if the changes discussed above had been in effect throughout the entire most recent fiscal half year are $5.12 and $6.38 for Series I and Series II shares, respectively.

4 The hypothetical expenses paid restated as if the changes discussed above had been in effect throughout the entire most recent fiscal half year are $5.07 and $6.32 for Series I and Series II shares, respectively.

Approval of Investment Advisory and Sub-Advisory Contracts

The Board of Trustees (the Board) of AIM Variable Insurance Funds (Invesco Variable Insurance Funds) is required under the Investment Company Act of 1940, as amended, to approve annually the renewal of the Invesco V.I. Utilities Fund (the Fund) investment advisory agreement with Invesco Advisers, Inc. (Invesco Advisers) and the Master Intergroup Sub-Advisory Contract for Mutual Funds (the sub-advisory contracts) with Invesco Asset Management Deutschland GmbH, Invesco Asset Management Limited, Invesco Asset Management (Japan) Limited, Invesco Australia Limited, Invesco Hong Kong Limited, Invesco Senior Secured Management, Inc. and Invesco Canada Ltd. (collectively, the Affiliated Sub-Advisers). During contract renewal meetings held on June 19-20, 2012, the Board as a whole, and the disinterested or "independent" Trustees, who comprise 80% of the Board, voting separately, approved the continuance of the Fund's investment advisory agreement and the sub-advisory contracts for another year, effective July 1, 2012. In doing so, the Board considered the process that it follows in reviewing and approving the Fund's investment advisory agreement and sub-advisory contracts and the information that it is provided. The Board determined that the Fund's investment advisory agreement and the sub-advisory contracts are in the best interests of the Fund and its shareholders and the compensation to Invesco Advisers and the Affiliated Sub-Advisers under the agreements is fair and reasonable.

The Board's Fund Evaluation Process

The Board's Investments Committee has established three Sub-Committees, each of which is primarily responsible for overseeing the management of a number of the series portfolios of the funds advised by Invesco Advisers (the Invesco Funds). The Sub-Committees meet throughout the year to review the performance of their assigned funds, including reviewing materials prepared under the direction of the independent Senior Officer, an officer of the Invesco Funds who reports directly to the independent Trustees. Over the course of each year, the Sub-Committees meet with portfolio managers for their assigned Invesco Funds and other members of management to review the performance, investment objective(s), policies, strategies, limitations and investment risks of these funds. The Sub-Committees meet regularly and at designated contract renewal meetings each year to conduct a review of the performance, fees, expenses and other matters related to their assigned Invesco Funds. Each Sub-Committee recommends to the Investments Committee, which in turn recommends to the full Board, whether and on what terms to approve the continuance of each Invesco Fund's investment advisory agreement and sub-advisory contracts for another year.

During the contract renewal process, the Trustees receive comparative performance and fee data regarding the Invesco Funds prepared by Invesco Advisers and an independent company, Lipper Inc. (Lipper). The Trustees also receive an independent written evaluation from the Senior Officer. The Senior Officer's evaluation is prepared as part of his responsibility to manage the process by which the Invesco Funds' proposed management fees are negotiated during the annual contract renewal process to ensure they are negotiated in a manner that is at arms' length and reasonable. The independent Trustees are assisted in their annual evaluation of the Fund's investment advisory agreement by the Senior Officer and by independent legal counsel. In addition to meetings with Invesco Advisers and fund counsel, the independent Trustees also discuss the continuance of the investment advisory agreement and sub-advisory contracts in private sessions with the Senior Officer and independent legal counsel.

In evaluating the fairness and reasonableness of the Fund's investment advisory agreement and sub-advisory contracts, the Board considered, among other things, the factors discussed below. The Trustees recognized that the advisory fees for the Invesco Funds include advisory fees that are the result of years of review and negotiation between the Trustees and Invesco Advisers as well as advisory fees previously approved by a different board that, at the time, was responsible for overseeing Morgan Stanley and Van Kampen funds, which have become Invesco Funds following the acquisition of the retail mutual fund business of Morgan Stanley. The Trustees' deliberations and conclusions in a particular year may be based in part on their deliberations and conclusions regarding these same arrangements throughout the year and in prior years. One Trustee may have weighed a particular piece of information or factor differently than another Trustee.

The discussion below serves as the Senior Officer's independent written evaluation with respect to the Fund's investment advisory agreement as well as a discussion of the material factors and related conclusions that formed the basis for the Board's approval of the Fund's investment advisory agreement and sub-advisory contracts. Unless otherwise stated, this information is current as of June 20, 2012, and may not reflect consideration of factors that became known to the Board after that date, including, for example, changes to the Fund's performance, advisory fees, expense limitations and/or fee waivers.

Factors and Conclusions and Summary of Independent Written Fee Evaluation

A. Nature, Extent and Quality of Services Provided by Invesco Advisers and the Affiliated Sub-Advisers

The Board reviewed the advisory services provided to the Fund by Invesco Advisers under the Fund's investment advisory agreement, the performance of Invesco Advisers in providing these services, and the credentials and experience of the officers and employees of Invesco Advisers who provide these services, including the Fund's portfolio manager or managers, with whom the Sub-Committees met during the year. The Board's review of the qualifications of Invesco Advisers to provide advisory services included the Board's consideration of Invesco Advisers' performance and investment process oversight, independent credit analysis and investment risk management.

In determining whether to continue the Fund's investment advisory agreement, the Board considered the prior relationship between Invesco Advisers and the Fund, as well as the Board's knowledge of Invesco Advisers' operations, and concluded that it is beneficial to maintain the current relationship, in part because of such prior relationship and knowledge. The Board also considered services that Invesco Advisers and its affiliates provide to the Invesco Funds such as various back office support functions, equity and fixed income trading operations, internal audit, distribution and legal and compliance. The Board concluded that the nature, extent and quality of the services provided to the Fund by Invesco Advisers are appropriate and satisfactory and consistent with the terms of the Fund's investment advisory agreement.

The Board reviewed the services provided by the Affiliated Sub-Advisers under the sub-advisory contracts and the credentials and experience of the officers and employees of the Affiliated Sub-Advisers who provide these services. The Board noted that the Affiliated Sub-Advisers have offices and personnel that are located in financial centers around the world. As a result, the Affiliated Sub-Advisers can provide research and investment analysis on the markets and economies of various countries in which the Fund invests and make recommendations on securities of companies located in such countries. The Board concluded that the sub-advisory contracts benefit the Fund and its shareholders by permitting Invesco Advisers to use the resources and talents of the Affiliated Sub-Advisers in managing the Fund. The Board concluded that the nature, extent and quality of the services provided by the Affiliated Sub-Advisers are appropriate and satisfactory and consistent with the terms of the Fund's sub-advisory contracts.

B. Fund Performance
The Board considered Fund performance as a relevant factor in considering whether to approve the investment advisory agreement. The Board did not view Fund performance as a relevant factor in considering whether to approve the sub-advisory contracts for the Fund, as no Affiliated Sub-Adviser currently manages assets of the Fund.

The Board compared the Fund's performance during the past one, three and five calendar years to the performance of funds in the Lipper performance universe and against the Lipper VA Underlying Funds – Utility Funds Index. The Board noted that performance of Series I shares of the Fund was in the first quintile of the Lipper performance universe for the one year period and the fourth quintile for the three and five year periods (the first quintile being the best performing funds and the fifth quintile being the worst performing funds). The Board noted that performance of Series I shares of the Fund was above the performance of the Index for the one year period and below the performance of the Index for the three and five year periods. The Trustees also reviewed more recent Fund performance and this review did not change their conclusions.

C. Advisory and Sub-Advisory Fees and Fee Waivers
The Board compared the Fund's contractual advisory fee rate to the contractual advisory fee rates of funds in the Fund's Lipper expense group at a common asset level. The Board noted that the contractual advisory fee rate for Series I shares of the Fund was below the median contractual advisory fee rate of funds in the expense group. The Board also reviewed the methodology used by Lipper in providing expense group information, which includes using audited financial data from the most recent annual report of each fund in the expense group that was publicly available as of the end of the past calendar year and including only one fund per investment adviser. The Board noted that comparative data is as of varying dates, which may affect the comparability of data during times of market volatility.

The Board also compared the Fund's effective fee rate (the advisory fee after advisory fee waivers and before expense limitations/waivers) to the advisory fee rates of other mutual funds advised by Invesco Advisers and its affiliates with investment strategies comparable to those of the Fund. The Board noted that the Fund's effective fee rate was above the effective rate of the other mutual fund with comparable investment strategies.

Other than the mutual fund described above, the Board noted that Invesco Advisers and the Affiliated Sub-Advisers do not advise other client accounts with investment strategies comparable to those of the Fund.

The Board also considered the services provided by the Affiliated Sub-Advisers pursuant to the sub-advisory contracts, as well as the allocation of fees between Invesco Advisers and the Affiliated Sub-Advisers pursuant to the sub-advisory contracts. The Board noted that Invesco Advisers provides services to sub-advised Invesco Funds, including oversight of the Affiliated Sub-Advisers as well as the additional services described above other than day-to-day portfolio management. The Board also noted that the sub-advisory fees have no direct effect on the Fund or its shareholders, as they are paid by Invesco Advisers to the Affiliated Sub-Advisers.

Based upon the information and considerations described above, the Board concluded that the Fund's advisory and sub-advisory fees are fair and reasonable.

D. Economies of Scale and Breakpoints
The Board considered the extent to which there are economies of scale in the provision of advisory services to the Fund. The Board noted that the Fund does not benefit from economies of scale through contractual breakpoints, but does share directly in economies of scale through lower fees charged by third party service providers based on the combined size of the Invesco Funds and other clients advised by Invesco Advisers. The Board noted that Invesco Advisers proposes sharing economies of scale in administration expenses by lowering per class administrative fees.

E. Profitability and Financial Resources
The Board reviewed information from Invesco Advisers concerning the costs of the advisory and other services that Invesco Advisers and its affiliates provide to the Fund and the profitability of Invesco Advisers and its affiliates in providing these services for the year ended December 31, 2011. The Board reviewed with Invesco Advisers the methodology used to prepare the profitability information. The Board considered the profitability of Invesco Advisers in connection with managing the Fund and the Invesco Funds. The Board noted that Invesco Advisers continues to operate at a net profit from advisory services Invesco Advisers provides to the Fund, but that overall Invesco Advisers and its affiliates did not make a profit from managing the Fund as a result of the size of the Fund and allocated expenses. The Board received and accepted information from Invesco Advisers demonstrating that Invesco Advisers and each Affiliated Sub-Adviser are financially sound and have the resources necessary to perform their obligations under the investment advisory agreement and sub-advisory contracts.

F. Collateral Benefits to Invesco Advisers and its Affiliates
The Board considered various other benefits received by Invesco Advisers and its affiliates from the relationship with the Fund, including the fees received for their provision of administrative, transfer agency and distribution services to the Fund. The Board considered the performance of Invesco Advisers and its affiliates in providing these services and the organizational structure employed to provide these services. The Board also considered that these services are provided to the Fund pursuant to written contracts that are reviewed and approved on an annual basis by the Board; that the services are required for the operation of the Fund; that Invesco Advisers and its affiliates can provide services, the nature and quality of which are at least equal to those provided by others offering the same or similar services; and that the fees for such services are fair and reasonable in light of the usual and customary charges by others for services of the same nature and quality.

The Board considered the benefits realized by Invesco Advisers and the Affiliated Sub-Advisers as a result of portfolio brokerage transactions executed through "soft dollar" arrangements. The Board noted that soft dollar arrangements shift the payment obligation for research services from Invesco Advisers and the Affiliated Sub-Advisers to the Invesco Funds and therefore may reduce Invesco Advisers' and the Affiliated Sub-Advisers' expenses. The Board also considered periodic reports from the Chief Compliance Officer of the Invesco Funds demonstrating that these arrangements are consistent with regulatory requirements. The Board did not deem the soft dollar arrangements to be inappropriate.

The Board considered that the Fund's uninvested cash and cash collateral from any securities lending arrangements may be invested in money market funds advised by Invesco Advisers pursuant to procedures approved by the Board. The Board noted that Invesco Advisers receives advisory fees from these affiliated money market funds attributable to such investments, although Invesco Advisers has contractually agreed to waive through varying periods the advisory fees payable by the Invesco Funds. The waiver is in an amount equal to 100% of the net advisory fee Invesco Advisers receives from the affiliated money market funds with respect to the Fund's investment in the affiliated money market funds of uninvested cash, but not cash collateral. The Board concluded that the Fund's investment of uninvested cash and cash collateral from any securities lending arrangements in the affiliated money market funds is in the best interests of the Fund and its shareholders.

The Board also considered use of an affiliated broker to execute certain trades for the Fund and that such trades are executed in compliance with rules under the Investment Company Act of 1940, as amended.

SEMIANNUAL REPORT

June 30, 2012

Janus Aspen Series

Janus Aspen Forty Portfolio

HIGHLIGHTS

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

JANUS

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Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, please call Janus at 1-877-335-2687 or download the file from janus.com/variable-insurance. Read it carefully before you invest or send money.

Useful Information About Your Portfolio Report
(unaudited)

Management Commentary

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

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

Please keep in mind that the opinions expressed by the Portfolio's manager in the Management Commentary are just that: opinions. They are a reflection of the manager's best judgment at the time this report was compiled, which was June 30, 2012. As the investing environment changes, so could the manager's opinions. These views are unique to the manager and aren't necessarily shared by fellow employees or by Janus in general.

Portfolio Expenses

We believe it's important for our shareholders to have a clear understanding of Portfolio expenses and the impact they have on investment return.

The following is important information regarding the Portfolio's Expense Example, which appears in the Portfolio's Management Commentary within this Semiannual Report. Please refer to this information when reviewing the Expense Example for the Portfolio.

Example

As a shareholder of the Portfolio, you incur two types of costs: (1) transaction costs, including redemption fees, where applicable (and any related exchange fees) and (2) ongoing costs, including management fees; distribution and shareholder servicing (12b-1) fees (applicable to Service Shares only); and other Portfolio expenses. The example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. The example is based upon an investment of $1,000 invested at the beginning of the period and held for the six-month period from January 1, 2012 to June 30, 2012.

Actual Expenses

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

Hypothetical Example for Comparison Purposes

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

Please note that the expenses shown in the tables are meant to highlight your ongoing costs only and do not reflect any transaction costs, such as redemption fees (where applicable) and any charges at the separate account level or contract level. These fees are fully described in the prospectus. Therefore, the second line of each 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 transaction costs were included, your costs would have been higher.

Janus Aspen Forty Portfolio (unaudited)

Portfolio Snapshot
We seek to invest in superior business models that exhibit high returns on capital and strong cash flow generation. We focus our analysis on companies with large potential total addressable markets that trade at attractive valuations. We manage focused portfolios that leverage the most compelling large-cap growth ideas of the research team.

Ron Sachs
portfolio manager

Performance Overview

For the six-month period ended June 30, 2012, the Portfolio's Institutional Shares and Service Shares returned 15.70% and 15.57%, respectively, versus a return of 10.08% for the Portfolio's primary benchmark, the Russell 1000 Growth Index. The Portfolio's secondary benchmark, the S&P 500 Index, returned 9.49% for the period. The sectors contributing the most to outperformance included information technology, energy and telecommunication services. The materials, industrials and financials sectors detracted from relative results.

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

Market Environment

Equities posted positive gains during the first six months, though much of the optimism that buoyed markets in the first quarter gave way to macroeconomic fears in the latter half of the second quarter. Strong corporate earnings and positive economic data lifted markets for the first few months. Then in May, confidence waned as the threat of a Greek exit from the eurozone and news of troubled Spanish banks hinted that Europe's troubles were not over. Negative economic data in the U.S. and China added to fears of a global slowdown.

Over the six-month period, large cap indices outperformed mid caps and small caps, while growth indices generally topped value. The best performing sectors in the Russell 1000 Growth Index included health care and technology, while the utilities and energy sectors were the weakest. Commodities were mixed led by gains in soybeans, wheat and corn, while cotton and oil were among the weakest performers.

Portfolio Positioning

Our limited exposure to the energy sector contributed to performance over the last six months, as many of those stocks fell amid declining oil prices. Our previous exposure to the energy sector focused on services companies involved in horizontal drilling. We are starting to uncover competitive pressures in the pressure pumping market in North America, which could lead to a dramatic decrease in pressure pumping margins, so we exited our energy service positions highly exposed to that business until we can better understand that dynamic. Historically, we have also avoided energy and production companies because we don't want to invest in companies in which the entire success of the stock is predicated on a correct guess on a commodity price. Going forward, we continue to look for companies within the sector that have wide competitive moats and where the value drivers of the stock are in management's control and not solely tied to the price of energy.

Our information technology holdings were also a large driver of outperformance relative to the benchmark. We are seeing a proliferation of data usage through mobile devices at work and at home, with broad implications for content owners, Internet companies and device manufacturers. We believe this backdrop provides a multi-year growth opportunity for wide moat companies such as Apple, eBay and Crown Castle, three of our top contributors over the past six months. We also see the value of data increasing – creating opportunities for technologies that help customers store, access and analyze data.

An interesting theme we are investing around in the portfolio is the emerging wealth in emerging markets, which appears to be a multi-year growth opportunity for companies with durable competitive moats. The companies with strong brand and growth prospects in their core markets are likely best able to capture growth from emerging markets because their brands are already global and these companies have the resources to execute their strategies. Consumers in these markets have been very willing to pay a premium for premium brands that they view as guarantees of quality or outward evidence of success. We have identified and invested in luxury goods brands, athletic lifestyle brands and fashion brands that we believe are capable of delivering rapid earnings growth in emerging economies while continuing to deliver strong earnings in their more mature markets.

Our holdings in materials and industrials were the largest detractors from relative performance. Within the industrials sector we tend to focus on transport services, logistics and asset light companies. When the macroeconomic environment looks healthy, as it did in the first quarter, these stocks tend to underperform some of the more cyclical stocks in the sector. Over the long term, however, we like the stable revenue streams and long term growth drivers of these companies. One stock, C.H. Robinson Worldwide, weighed heavily on our performance within the sector. The company has been impacted by a shortage of trucking capacity, which has reduced profitability as truckers have demanded better pricing. We like C.H. Robinson's business model, however, which has posted 15% annual growth for years. We think the long-term opportunity and value of the business remains intact.

Our only materials holding, Ivanhoe Mines, was a drag on performance. The stock traded down after another mining company was able to acquire a majority stake in the company, without having to pay a control premium. We continue to take a long-term view with the company, and believe the value of its Mongolian mine, which represents one of the last large deposits of high-grade copper in the world, will eventually accrue to shareholders.

Top Contributors Included a Large Technology Company and an Ecommerce Company

Apple was the top contributor to the portfolio's performance over the last six months. The stock is our largest holding. We continue to hold Apple because of its highly successful line of differentiated mobile computing products, from the iPad to the iPhone, and because of its growing market share in personal computers. We like the company's durable franchise, long-term growth prospects and demonstrated ability to win in various economic environments.

eBay was another top contributor. As eBay continued to execute on its comprehensive e-commerce platform, its stock price reached a six-year high during the second quarter. We like the way the company has positioned itself, making strategic acquisitions to help it partner with merchants, instead of competing against them. eBay's PayPal has launched offline services that allow patrons to use their PayPal accounts in physical stores. Since PayPal has more information on its users than credit card companies, they are giving merchants access to valuable marketing and sales information on their customers. Meanwhile, the acquisition of GSI Commerce allows eBay to offer fulfillment services to merchants, and eBay's web site helps drive traffic to the web sites of other merchants.

Top Detractors Included a Mining Company and a Logistics Firm

Ivanhoe Mines was the leading detractor from performance. As mentioned, the stock was hurt after another mining company was able to acquire a majority stake in the firm. In the second quarter, the stock fell after concern over how a rights offering would affect earnings per share. We took a position with Ivanhoe because we believe its Mongolian copper mine offers a great opportunity for investors.

C.H. Robinson Worldwide also detracted from performance. The company provides freight logistics, providing companies with access to transportation providers worldwide. In the first quarter, a shortage of trucking capacity enabled truckers to demand better pricing, and this weighed on C.H. Robinson's profits. Over the long term, we still like the company's growth potential. The freight logistics industry is a highly fragmented market, and in our opinion C.H. Robinson has the best scale and best systems, which is allowing it to continue to take market share. We expect the company to benefit when there is more trucking capacity and margins improve.

Outlook

We are closely monitoring the situation in Europe, where politicians and policy makers have their work cut out for them. The region needs to take bolder measures to come up with a real fix to its problems, rather than stopgap solutions that simply push problems further down the road. Outside of Europe, we think it is positive that other regions are stepping up to stimulate their economies. China's moves to cut rates and decrease its banks' reserve requirements could help stimulate growth in Asia. Meanwhile, the U.S. is holding up relatively well and we still expect slow to modest economic growth for the year. Lower energy prices will be a tailwind for the global economy, especially in emerging markets where energy costs make up a larger percentage of cost of living expenses.

While Europe is undoubtedly the largest concern at the macroeconomic level, we are cautiously optimistic that concerns about Europe are largely priced into most stocks and that upside opportunities exist. Unlike previous economic crises, the problems in Europe are a "known unknown." In other words, companies might not know exactly what will happen in Europe, but they are prepared

Janus Aspen Forty Portfolio (unaudited)

for weakness in the area. This is easier for companies to navigate than a crisis that takes everyone by surprise, such as the one in 2008. We believe that the companies in our portfolio are not predicating their business plans on a strong European business cycle, or expecting Europe to be the driver of growth for their global businesses. While the companies we are investing in do not rely on Europe to drive global growth, it is worth remembering that in a weak environment, value-added products and services continue to sell. We have seen this with some of the retail and technology companies we currently own that are still seeing demand for their products in Europe.

While a global economic slowdown would not bode well for businesses in general, we invest in companies that have pricing power, which should help them maintain or increase margins in many economic environments. We seek companies that have wide competitive moats which can help them fend off competition in the long-term, or which serve large unaddressed markets. We believe those factors should help these companies, even in a weaker economic climate.

Thank you for your investment in Janus Aspen Forty Portfolio.

(unaudited)

Janus Aspen Forty Portfolio At A Glance

5 Top Performers – Holdings

	Contribution
Apple, Inc.	3.86%
eBay, Inc.	2.84%
Medco Health Solutions, Inc.	1.46%
News Corp. – Class A	1.30%
Crown Castle International Corp.	1.01%

5 Bottom Performers – Holdings

	Contribution
Ivanhoe Mines, Ltd. (U.S. Shares)	−1.17%
C.H. Robinson Worldwide, Inc.	−0.36%
Celgene Corp.	−0.34%
Ford Motor Co.	−0.16%
Facebook, Inc. – Class A	−0.15%

5 Top Performers – Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000® Growth Index Weighting
Information Technology	4.46%	33.57%	29.57%
Energy	1.59%	0.22%	9.99%
Telecommunication Services	0.67%	3.38%	0.89%
Health Care	0.43%	18.37%	10.58%
Consumer Discretionary	0.16%	18.92%	14.53%

5 Bottom Performers – Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000® Growth Index Weighting
Materials	−1.24%	1.70%	5.27%
Industrials	−0.46%	14.37%	12.57%
Financials	−0.18%	5.73%	4.29%
Other**	−0.12%	2.73%	0.00%
Consumer Staples	−0.09%	1.00%	12.23%

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

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

** Not a GICS classified sector.

Janus Aspen Forty Portfolio (unaudited)

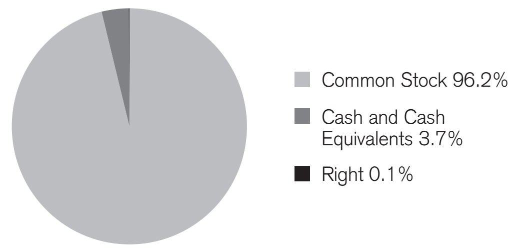
5 Largest Equity Holdings – (% of Net Assets)

As of June 30, 2012

Apple, Inc.	
Computers	11.5%
eBay, Inc.	
E-Commerce/Products	8.5%
Express Scripts Holding Co.	
Pharmacy Services	7.0%
Celgene Corp.	
Medical – Biomedical and Genetic	5.6%
News Corp. – Class A	
Multimedia	5.6%
	38.2%

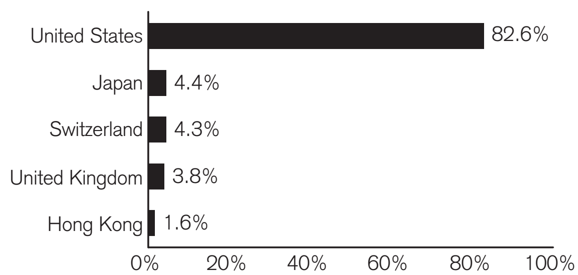
Asset Allocation – (% of Net Assets)

As of June 30, 2012

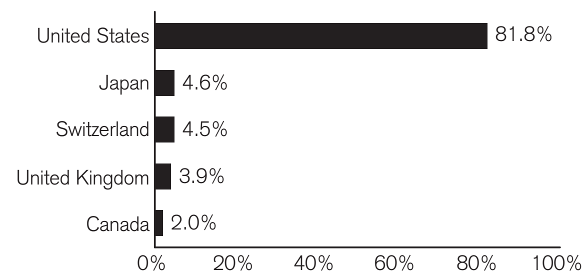


Top Country Allocations – Long Positions (% of Investment Securities)

As of June 30, 2012

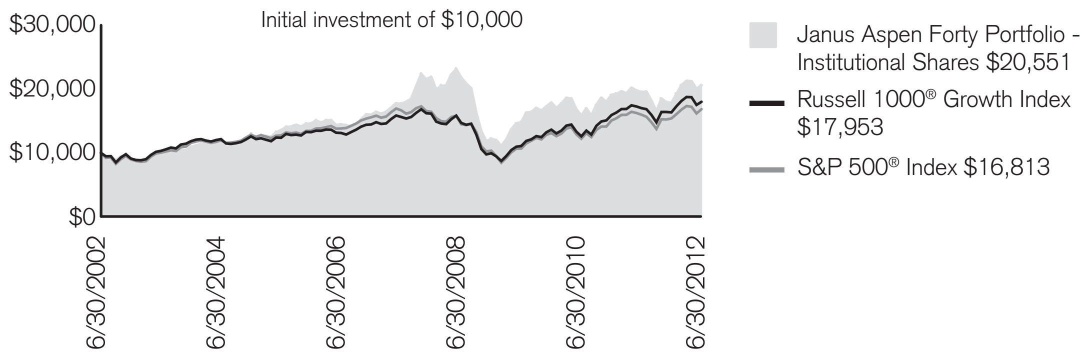


As of December 31, 2011



(unaudited)

Performance



Average Annual Total Return – for the periods ended June 30, 2012

Expense Ratios – per the May 1, 2012 prospectuses

	Fiscal Year-to-date	One Year	Five Year	Ten Year	Since Inception*	Total Annual Fund Operating Expenses
Janus Aspen Forty Portfolio – Institutional Shares	15.70%	5.58%	3.11%	7.47%	9.75%	0.71%
Janus Aspen Forty Portfolio – Service Shares	15.57%	5.31%	2.85%	7.20%	9.43%	0.96%
Russell 1000® Growth Index	10.08%	5.76%	2.87%	6.03%	4.60%	
S&P 500® Index	9.49%	5.45%	0.22%	5.33%	5.46%	
Lipper Quartile – Institutional Shares	–	1st	1st	1st	1st	
Lipper Ranking – Institutional Shares based on total returns for Variable Annuity Large-Cap Growth Funds	–	40/236	32/196	9/141	1/53	

Visit janus.com/variable-insurance to view current performance and characteristic information

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

The Portfolio has a performance-based management fee that adjusts up or down based on the Portfolio's performance relative to an approved benchmark index over a performance measurement period. See the Portfolio's Prospectus or Statement of Additional Information for more details.

See important disclosures on the next page.

Janus Aspen Forty Portfolio (unaudited)

The Portfolio's performance may be affected by risks that include those associated with nondiversification, investments in specific industries or countries, and potential conflicts of interest with a Janus "fund of funds." Additional risks to the Portfolio may include those associated with investing in foreign securities, emerging markets, initial public offerings ("IPOs"), and derivatives. Please see a Janus prospectus or janus.com/variable-insurance for more information about risks, portfolio holdings and other details.

The Portfolio may invest in derivatives which can be highly volatile and involve additional risks than if the underlying securities were held directly by the Portfolio. Such risks include gains or losses which, as a result of leverage, can be substantially greater than the derivatives' original cost. There is also a possibility that derivatives may not perform as intended which can reduce opportunity for gains or result in losses by offsetting positive returns in other securities the Portfolio owns.

These returns do not reflect the charges and expenses of any particular insurance product or qualified plan. Returns shown would have been lower had they included insurance charges.

Returns include reinvestment of dividends from net investment income and distributions from capital gains. The returns do not include adjustments in accordance with generally accepted accounting principles required at the period end for financial reporting purposes.

Returns shown for Service Shares for periods prior to December 31, 1999 are derived from the historical performance of Institutional Shares, adjusted to reflect the higher operating expenses of Service Shares.

Lipper, a wholly-owned subsidiary of Thomson Reuters, provides independent insight on global collective investments including mutual funds, retirement funds, hedge funds, fund fees and expenses to the asset management and media communities. Lipper ranks the performance of mutual funds within a classification of funds that have similar investment objectives. Rankings are historical with capital gains and dividends reinvested.

Ranking is for the Institutional Share class only; other classes may have different performance characteristics.

May 31, 1997 is the date used to calculate the since-inception Lipper ranking, which is slightly different from when the Portfolio began operations since Lipper provides fund rankings as of the last day of the month.

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

See Notes to Schedule of Investments for index definitions.

The Portfolio's holdings may differ significantly from the securities held in the indices. The indices are unmanaged and are not available for direct investment; therefore, their performance does not reflect the expenses associated with the active management of an actual portfolio.

See "Explanations of Charts, Tables and Financial Statements."

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

Portfolio Expenses

The examples below show you the ongoing costs (in dollars) of investing in your Portfolio and allow you to compare these costs with those of other mutual funds. Please refer to the section Useful Information About Your Portfolio Report for a detailed explanation of the information presented in these charts.

Expense Example – Institutional Shares	Beginning Account Value (1/1/12)	Ending Account Value (6/30/12)	Expenses Paid During Period (1/1/12 - 6/30/12)†
Actual	$1,000.00	$1,157.00	$2.95
Hypothetical (5% return before expenses)	$1,000.00	$1,022.13	$2.77

Expense Example – Service Shares	Beginning Account Value (1/1/12)	Ending Account Value (6/30/12)	Expenses Paid During Period (1/1/12 - 6/30/12)†
Actual	$1,000.00	$1,155.40	$4.29
Hypothetical (5% return before expenses)	$1,000.00	$1,020.89	$4.02

† Expenses are equal to the annualized expense ratio of 0.55% for Institutional Shares and 0.80% for Service Shares multiplied by the average account value over the period, multiplied by 182/366 (to reflect the one-half year period).

Janus Aspen Forty Portfolio

Schedule of Investments (unaudited)

As of June 30, 2012

Shares		Value
Common Stock – 96.2%		
Apparel Manufacturers – 0.9%		
1,281,700	Prada SpA	$ 8,710,755
Applications Software – 3.9%		
1,246,165	Microsoft Corp.	38,120,187
Athletic Footwear – 1.4%		
154,705	NIKE, Inc. – Class B	13,580,005
Automotive – Cars and Light Trucks – 1.3%		
1,369,055	Ford Motor Co.	13,129,237
Beverages – Wine and Spirits – 1.1%		
97,677	Pernod-Ricard S.A.	10,447,446
Brewery – 0%		
339,003	Anheuser-Busch InBev N.V. – VVPR Strip*	429
Casino Hotels – 1.7%		
1,528,735	MGM Resorts International*	17,060,683
Commercial Banks – 1.7%		
748,756	Standard Chartered PLC	16,320,904
Commercial Services – 1.9%		
568,670	Iron Mountain, Inc.	18,743,363
Commercial Services – Finance – 1.1%		
24,590	MasterCard, Inc. – Class A	10,576,405
Computers – 11.5%		
194,445	Apple, Inc.*	113,555,880
Computers – Memory Devices – 3.8%		
1,470,455	EMC Corp.*	37,687,762
E-Commerce/Products – 9.4%		
38,755	Amazon.com, Inc.*	8,849,704
1,997,295	eBay, Inc.*	83,906,363
		92,756,067
Electronic Components – Miscellaneous – 2.1%		
657,225	TE Connectivity, Ltd. (U.S. Shares)	20,972,050
Electronic Connectors – 1.4%		
245,315	Amphenol Corp. – Class A	13,472,700
Enterprise Software/Services – 2.8%		
926,352	Oracle Corp.	27,512,654
Industrial Automation and Robotics – 4.4%		
264,100	FANUC Corp.	43,399,046
Internet Media – 0.6%		
186,022	Facebook, Inc. – Class A*	5,789,005
Life and Health Insurance – 3.7%		
4,549,400	AIA Group, Ltd.	15,686,592
1,795,692	Prudential PLC	20,802,257
		36,488,849
Medical – Biomedical and Genetic – 7.3%		
872,328	Celgene Corp.*	55,968,564
297,127	Vertex Pharmaceuticals, Inc.*	16,615,342
		72,583,906
Medical Instruments – 2.6%		
46,760	Intuitive Surgical, Inc.*	25,895,220
Metal – Diversified – 1.2%		
1,269,717	Ivanhoe Mines, Ltd. (U.S. Shares)*	12,290,861
Metal Processors and Fabricators – 2.4%		
144,110	Precision Castparts Corp.	23,704,654
Multimedia – 5.6%		
2,468,710	News Corp. – Class A	$ 55,027,546
Pharmacy Services – 7.0%		
1,243,216	Express Scripts Holding Co.*	69,408,749
Retail – Apparel and Shoe – 4.2%		
987,750	Limited Brands, Inc.	42,009,007
Retail – Jewelry – 2.1%		
385,356	Cie Financiere Richemont S.A.	21,156,344
Transportation – Services – 5.4%		
294,140	C.H. Robinson Worldwide, Inc.	17,216,014
453,330	United Parcel Service, Inc. – Class B	35,704,271
		52,920,285
Wireless Equipment – 3.7%		
631,565	Crown Castle International Corp.*	37,047,603
Total Common Stock (cost $675,980,436)		950,367,602
Right – 0.1%		
Metal – Diversified – 0.1%		
1,269,717	Ivanhoe Mines, Ltd.* (cost $0)	1,170,679
Money Market – 3.1%		
30,980,220	Janus Cash Liquidity Fund LLC, 0% (cost $30,980,220)	30,980,220
Total Investments (total cost $706,960,656) – 99.4%		982,518,501
Cash, Receivables and Other Assets, net of Liabilities – 0.6%		5,773,525
Net Assets – 100%		$988,292,026

Summary of Investments by Country – (Long Positions)

Country	Value	% of Investment Securities
Belgium	$ 429	0.0%
Canada	13,461,540	1.4%
France	10,447,446	1.0%
Hong Kong	15,686,592	1.6%
Italy	8,710,755	0.9%
Japan	43,399,046	4.4%
Switzerland	42,128,394	4.3%
United Kingdom	37,123,161	3.8%
United States††	811,561,138	82.6%
Total	$982,518,501	100.0%

†† Includes Cash Equivalents (79.4% excluding Cash Equivalents).

See Notes to Schedule of Investments and Financial Statements.

Statement of Assets and Liabilities

As of June 30, 2012 (unaudited) *(all numbers in thousands except net asset value per share)*	*Janus Aspen Forty Portfolio*
Assets:	
Investments at cost	$706,961
Unaffiliated investments at value	$951,538
Affiliated investments at value	30,980
Cash	1
Cash denominated in foreign currency(1)	304
Receivables:	
Investments sold	5,003
Portfolio shares sold	1,537
Dividends	391
Foreign dividend tax reclaim	40
Non-interested Trustees' deferred compensation	16
Other assets	2
Total Assets	989,812
Liabilities:	
Payables:	
Portfolio shares repurchased	779
Advisory fees	382
Fund administration fees	8
Internal servicing cost	–
Distribution fees and shareholder servicing fees	93
Non-interested Trustees' fees and expenses	21
Non-interested Trustees' deferred compensation fees	16
Accrued expenses and other payables	221
Total Liabilities	1,520
Net Assets	$988,292
Net Assets Consist of:	
Capital (par value and paid-in surplus)*	$787,348
Undistributed net investment income*	998
Undistributed net realized loss from investment and foreign currency transactions*	(75,559)
Unrealized net appreciation of investments, foreign currency translations and non-interested Trustees' deferred compensation	275,505
Total Net Assets	$988,292
Net Assets - Institutional Shares	$522,379
Shares Outstanding, $0.001 Par Value (unlimited shares authorized)	13,633
Net Asset Value Per Shares	$ 38.32
Net Assets - Service Shares	$465,913
Shares Outstanding, $0.001 Par Value (unlimited shares authorized)	12,353
Net Asset Value Per Share	$ 37.72

* See Note 5 in Notes to Financial Statements.
(1) Includes cost of $304,281.

See Notes to Financial Statements.

Statement of Operations

For the six-month period ended June 30, 2012 (unaudited) *(all numbers in thousands)*	*Janus Aspen Forty Portfolio*
Investment Income:	
Interest	$ –
Dividends	4,312
Dividends from affiliates	19
Foreign tax withheld	(33)
Total Investment Income	4,298
Expenses:	
Advisory fees	2,362
Internal servicing expense - Institutional Shares	2
Internal servicing expense - Service Shares	1
Shareholder reports expense	154
Transfer agent fees and expenses	4
Registration fees	12
Custodian fees	16
Professional fees	26
Non-interested Trustees' fees and expenses	19
Fund administration fees	46
Distribution fees and shareholder servicing fees - Service Shares	578
Other expenses	47
Total Expenses	3,267
Expense and Fee Offset	–
Net Expenses	3,267
Net Investment Income	1,031
Net Realized and Unrealized Gain/(Loss) on Investments:	
Net realized loss from investment and foreign currency transactions	(2,304)
Net realized gain from written options contracts	696
Change in unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation	136,760
Change in unrealized net appreciation/(depreciation) of written option contracts	(572)
Net Gain on Investments	134,580
Net Increase in Net Assets Resulting from Operations	$135,611

See Notes to Financial Statements.

Statements of Changes in Net Assets

For the six-month period ended June 30, 2012 (unaudited) and the fiscal year ended December 31, 2011 (all numbers in thousands)	*Janus Aspen Forty Portfolio* 2012	2011
Operations:		
Net investment income	$ 1,031	$ 4,351
Net realized gain/(loss) from investment and foreign currency transactions	(1,608)	95,344
Change in unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation	136,188	(164,538)
Net Increase/(Decrease) in Net Assets Resulting from Operations	135,611	(64,843)
Dividends and Distributions to Shareholders:		
Net Investment Income*		
Institutional Shares	(1,545)	(1,932)
Service Shares	(1,014)	(1,182)
Net Realized Gain/(Loss) from Investment Transactions*		
Institutional Shares	–	–
Service Shares	–	–
Net Decrease from Dividends and Distributions	(2,559)	(3,114)
Capital Share Transactions:		
Shares Sold		
Institutional Shares	36,575	57,219
Service Shares	36,419	52,459
Reinvested Dividends and Distributions		
Institutional Shares	1,545	1,932
Service Shares	1,014	1,182
Shares Repurchased		
Institutional Shares	(44,938)	(131,430)
Service Shares	(52,242)	(136,505)
Net Decrease from Capital Share Transactions	(21,627)	(155,143)
Net Increase/(Decrease) in Net Assets	111,425	(223,100)
Net Assets:		
Beginning of period	876,867	1,099,967
End of period	$988,292	$ 876,867
Undistributed Net Investment Income*	$ 998	$ 2,526

* See Note 5 in Notes to Financial Statements.

See Notes to Financial Statements.

Financial Highlights

Institutional Shares

For a share outstanding during the six-month period ended June 30, 2012 (unaudited) and each fiscal year ended December 31	*Janus Aspen Forty Portfolio*					
	2012	*2011*	*2010*	*2009*	*2008*	*2007*
Net Asset Value, Beginning of Period	$33.22	$35.74	$33.61	$22.97	$41.18	$30.16
Income from Investment Operations:						
Net investment income	0.07	0.23	0.19	0.08	0.04	0.15
Net gain/(loss) on investments (both realized and unrealized)	5.14	(2.62)	2.06	10.57	(18.20)	10.99
Total from Investment Operations	5.21	(2.39)	2.25	10.65	(18.16)	11.14
Less Distributions and Other:						
Dividends (from net investment income)*	(0.11)	(0.13)	(0.12)	–	(0.03)	(0.12)
Distributions (from capital gains)*	–	–	–	–	–	–
Return of capital	N/A	N/A	N/A	(0.01)	(0.02)	N/A
Total Distributions and Other	(0.11)	(0.13)	(0.12)	(0.01)	(0.05)	(0.12)
Net Asset Value, End of Period	$38.32	$33.22	$35.74	$33.61	$22.97	$41.18
Total Return**	15.70%	(6.69)%	6.72%	46.38%	(44.15)%	36.99%
Net Assets, End of Period (in thousands)	$522,379	$459,459	$567,322	$582,511	$399,087	$576,503
Average Net Assets for the Period (in thousands)	$515,026	$518,818	$553,994	$482,572	$560,324	$485,379
Ratio of Gross Expenses (Absent the Waiver of Certain Fees and Expense Offsets) to Average Net Assets***	0.55%	0.70%	0.67%	0.68%	0.67%	0.69%
Ratio of Net Expenses (After Waivers but Prior to Any Expense Offsets) to Average Net Assets***	0.55%	0.70%	0.67%	0.68%	0.67%	0.69%(1)
Ratio of Net Expenses (After Waivers and Expense Offsets) to Average Net Assets***	0.55%	0.70%	0.67%	0.68%	0.67%	0.69%(1)
Ratio of Net Investment Income to Average Net Assets***	0.33%	0.56%	0.52%	0.05%	0.05%(2)	0.40%
Portfolio Turnover Rate	8%	46%	36%	32%	61%	24%

Service Shares

For a share outstanding during the six-month period ended June 30, 2012 (unaudited) and each fiscal year ended December 31	*Janus Aspen Forty Portfolio*					
	2012	*2011*	*2010*	*2009*	*2008*	*2007*
Net Asset Value, Beginning of Period	$32.72	$35.24	$33.17	$22.73	$40.80	$29.91
Income from Investment Operations:						
Net investment income/(loss)	0.01	0.09	0.07	–	(0.03)	0.06
Net gain/(loss) on investments (both realized and unrealized)	5.07	(2.52)	2.08	10.44	(18.04)	10.89
Total from Investment Operations	5.08	(2.43)	2.15	10.44	(18.07)	10.95
Less Distributions and Other:						
Dividends (from net investment income)*	(0.08)	(0.09)	(0.08)	–	–	(0.06)
Distributions (from capital gains)*	–	–	–	–	–	–
Return of capital	N/A	N/A	N/A	–(3)	–(3)	N/A
Total Distributions and Other	(0.08)	(0.09)	(0.08)	–	–	(0.06)
Net Asset Value, End of Period	$37.72	$32.72	$35.24	$33.17	$22.73	$40.80
Total Return**	15.54%	(6.91)%	6.48%	45.95%	(44.28)%	36.63%
Net Assets, End of Period (in thousands)	$465,913	$417,408	$532,645	$639,979	$428,109	$713,499
Average Net Assets for the Period (in thousands)	$464,913	$475,743	$567,062	$520,592	$653,396	$557,041
Ratio of Gross Expenses (Absent the Waiver of Certain Fees and Expense Offsets) to Average Net Assets***	0.80%	0.95%	0.92%	0.93%	0.92%	0.94%
Ratio of Net Expenses (After Waivers but Prior to Any Expense Offsets) to Average Net Assets***	0.80%	0.95%	0.92%	0.93%	0.92%	0.94%(1)
Ratio of Net Expenses (After Waivers and Expense Offsets) to Average Net Assets***	0.80%	0.95%	0.92%	0.93%	0.92%	0.94%(1)
Ratio of Net Investment Income/(Loss) to Average Net Assets***	0.08%	0.31%	0.25%	(0.22)%	(0.18)%(2)	0.15%
Portfolio Turnover Rate	8%	46%	36%	32%	61%	24%

* See Note 5 in Notes to Financial Statements.
** Total return not annualized for periods of less than one full year.
*** Annualized for periods of less than one full year.
(1) Ratio of Net Expenses (After Waivers but Prior to Any Expense Offsets) to Average Net Assets and Ratio of Net Expenses (After Waivers and Expense Offsets) to Average Net Assets include any applicable dividends and interest on short positions and may include stock loan fees. The ratios would have been 0.67% and 0.67%, respectively, in 2007 for Institutional Shares and 0.92% and 0.92%, respectively, in 2007 for Service Shares without the inclusion of any applicable dividends and interest on short positions and any stock loan fees.
(2) As a result of recharacterization of dividend income to return of capital, the Ratio of Net Investment Income/(Loss) to Average Net Assets has been reduced by 0.11% and 0.09% for Institutional Shares and Service Shares, respectively. The adjustment had no impact on total net assets or total return of the class.
(3) Return of capital aggregated less than $0.01 on a per share basis.

See Notes to Financial Statements.

Notes to Schedule of Investments (unaudited)

Lipper Variable Annuity Large-Cap Growth Funds	Funds that, by portfolio practice, invest at least 75% of their equity assets in companies with market capitalizations (on a three-year weighted basis) above Lipper's U.S. Diversified Equity large-cap floor. Large-cap growth funds typically have an above-average price-to-earnings ratio, price-to-book ratio, and three-year sales-per-share growth value, compared to the S&P 500® Index.
Russell 1000® Growth Index	Measures the performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.
S&P 500® Index	A commonly recognized, market-capitalization weighted index of 500 widely held equity securities, designed to measure broad U.S. equity performance.
PLC	Public Limited Company
U.S. Shares	Securities of foreign companies trading on an American Stock Exchange.
VVPR Strip	The Voter Verified Paper Record (VVPR) strip is a coupon which, if presented along with the dividend coupon of the ordinary share, allows the benefit of a reduced withholding tax on the dividends paid by the company. This strip is quoted separately from the ordinary share and is freely negotiable.

* Non-income producing security.

The following is a summary of the inputs that were used to value the Portfolio's investments in securities and other financial instruments as of June 30, 2012. See Notes to Financial Statements for more information.

Valuation Inputs Summary (as of June 30, 2012)

	Level 1 – Quoted Prices	*Level 2 – Other Significant Observable Inputs(a)*	*Level 3 – Significant Unobservable Inputs*
Investments in Securities:			
Janus Aspen Forty Portfolio			
Common Stock			
Apparel Manufacturers	$ –	$ 8,710,755	$–
Beverages – Wine and Spirits	–	10,447,446	–
Commercial Banks	–	16,320,904	–
Industrial Automation and Robotics	–	43,399,046	–
Life and Health Insurance	–	36,488,849	–
Retail – Jewelry	–	21,156,344	–
All Other	813,844,258	–	–
Right	1,170,679	–	–
Money Market	–	30,980,220	–
Total Investments in Securities	$815,014,937	$167,503,564	$–

(a) Includes fair value factors.

Notes to Financial Statements (unaudited)

The following section describes the organization and significant accounting policies and provides more detailed information about the schedules and tables that appear throughout this report. In addition, the Notes to Financial Statements explain the methods used in preparing and presenting this report.

1. Organization and Significant Accounting Policies

Janus Aspen Forty Portfolio (the "Portfolio") is a series fund. The Portfolio is part of Janus Aspen Series (the "Trust"), which is organized as a Delaware statutory trust and is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company. The Trust offers eleven Portfolios which include multiple series of shares, with differing investment objectives and policies. The Portfolio invests primarily in common stocks. The Portfolio is classified as nondiversified, as defined in the 1940 Act. The Portfolio is a no-load investment.

The Portfolio currently offers two classes of shares: Institutional Shares and Service Shares. Institutional Shares are offered only in connection with investment in and payments under variable insurance contracts and to qualified retirement plans. Service Shares are offered only in connection with investment in and payments under variable insurance contracts and to qualified retirement plans that require a fee from Portfolio assets to procure distribution and administrative services to contract owners and plan participants.

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

Investment Valuation

Securities are valued at the last sales price or the official closing price for securities traded on a principal securities exchange (U.S. or foreign) and on the NASDAQ National Market. Securities traded on over-the-counter ("OTC") markets and listed securities for which no sales are reported are valued at the latest bid price (or yield equivalent thereof) obtained from one or more dealers transacting in a market for such securities or by a pricing service approved by the Portfolio's Trustees. Short-term securities with maturities of 60 days or less may be valued at amortized cost, which approximates market value. Debt securities with a remaining maturity of greater than 60 days are valued in accordance with the evaluated bid price supplied by the pricing service. The evaluated bid price supplied by the pricing service is an evaluation that reflects such factors as security prices, yields, maturities and ratings. Short positions shall be valued in accordance with the same methodologies, except that in the event that a last sale price is not available, the latest ask price shall be used instead of a bid price. Foreign securities and currencies are converted to U.S. dollars using the applicable exchange rate in effect as of the daily close of the New York Stock Exchange ("NYSE"). When market quotations are not readily available or deemed unreliable, or events or circumstances that may affect the value of portfolio securities held by the Portfolio are identified between the closing of their principal markets and the time the net asset value ("NAV") is determined, securities may be valued at fair value as determined in good faith under procedures established by and under the supervision of the Portfolio's Trustees. Circumstances in which fair value pricing may be utilized include, but are not limited to: (i) a significant event that may affect the securities of a single issuer, such as a merger, bankruptcy, or significant issuer specific development; (ii) an event that may affect an entire market, such as a natural disaster or significant governmental action; (iii) a nonsignificant event such as a market closing early or not opening, or a security trading halt; and (iv) pricing of a non-valued security and a restricted or non-public security. The Portfolio may use systematic fair valuation models provided by independent third parties to value international equity securities in order to adjust for stale pricing, which may occur between the close of certain foreign exchanges and the close of the NYSE. Restricted and illiquid securities are valued in accordance with procedures established by the Portfolio's Trustees.

Investment Transactions and Investment Income

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

Expenses

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

Estimates

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

Foreign Currency Translations

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

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

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

Dividend Distributions

The Portfolio may make semiannual distributions of substantially all of its investment income and an annual distribution of its net realized capital gains (if any). Distributions of net investment income and net capital gains, if any, are automatically reinvested in additional Shares of the Portfolio.

Federal Income Taxes

No provision for income taxes is included in the accompanying financial statements as the Portfolio intends to distribute to shareholders all taxable investment income and realized gains and otherwise comply with Subchapter M of the Internal Revenue Code applicable to regulated investment companies.

In accordance with the Financial Accounting Standards Board ("FASB") guidance, the Portfolio adopted the provisions of "Income Taxes." These provisions require an evaluation of tax positions taken (or expected to be taken) in the course of preparing the Portfolio's tax return to determine whether these positions meet a "more-likely-than-not" standard that, based on the technical merits, have a more than fifty percent likelihood of being sustained by a taxing authority upon examination. A tax position that meets the "more-likely-than-not" recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The Portfolio recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense on the Statement of Operations.

These provisions require management of the Portfolio to analyze all open tax years, as defined by the Statute of Limitations, for all major jurisdictions, including federal tax authorities and certain state tax authorities. As of and during the period ended June 30, 2012, the Portfolio did not have a liability for any unrecognized tax benefits. The Portfolio has no examinations in progress and is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

On December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the "Modernization Act") was signed by the President. The Modernization Act is the first major piece of legislation affecting Regulated Investment Companies ("RICs") since 1986 and it modernizes several of the federal income and excise tax provisions related to RICs. Some of the enacted provisions include:

New capital losses may now be carried forward indefinitely, and retain the character of the original loss. Under pre-enactment law, capital losses could be carried forward for eight years, and carried forward as short-term capital, irrespective of the character of the original loss.

The Modernization Act contains simplification provisions, which are aimed at preventing disqualification of a RIC for "inadvertent" failures of the asset diversification and/or qualifying income tests. Additionally, the Modernization Act exempts RICs from the preferential dividend rule, and repeals the 60-day designation requirement for certain types of pay-through income and gains.

Finally, the Modernization Act contains several provisions aimed at preserving the character of distributions made by a fiscal year RIC during the portion of its taxable year ending after October 31 or December 31, reducing the circumstances under which a RIC might be required to file amended Forms 1099 to restate previously reported distributions.

Except for the simplification provisions related to RIC qualification, the Modernization Act was effective for taxable years beginning after December 22, 2010. The provisions related to RIC qualification are effective for taxable years for which the extended due date of the tax return is after December 22, 2010.

Valuation Inputs Summary

In accordance with FASB guidance, the Portfolio utilizes the "Fair Value Measurements" to define fair value, establish a framework for measuring fair value, and expand disclosure requirements regarding fair value measurements. The Fair Value Measurement Standard does not require new fair value measurements, but is applied to the extent that other accounting pronouncements require or permit fair value measurements. This standard emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability. Various inputs are used in determining the value of the Portfolio's investments defined pursuant to this standard. These inputs are summarized into three broad levels:

Level 1 – Quoted prices in active markets for identical securities.

Level 2 – Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, and others.

Debt securities are valued in accordance with the evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy. Securities traded on OTC markets and listed securities for which no sales are reported are valued at the latest bid price (or yield equivalent thereof) obtained from one or more dealers transacting in a market for such securities or by a pricing service approved by the Portfolio's Trustees and are categorized as Level 2 in the hierarchy. Short-term securities with maturities of 60 days or less are valued at amortized cost, which approximates market value and are categorized as Level 2 in the hierarchy. Other securities that are categorized as Level 2 in the hierarchy include, but are not limited to, preferred stocks, bank loans, American Depositary Receipts (ADRs), Global Depositary Receipts (GDRs), warrants, swaps, investments in mutual funds, OTC options, and forward contracts. The Portfolio may use systematic fair valuation models provided by independent third parties to value international equity securities in order to adjust for stale pricing, which may occur between the close of certain foreign exchanges and the close of the NYSE. These are generally categorized as Level 2 in the hierarchy.

Level 3 – Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

For restricted equity securities and private placements where observable inputs are limited, assumptions about market activity and risk are used in employing valuation techniques such as the market approach, the income approach, or the cost approach, as defined under the FASB Guidance. These are categorized as Level 3 in the hierarchy.

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

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The summary of inputs used as of June 30, 2012 to value the Portfolio's investments in securities and other financial instruments is included in the "Valuation Inputs Summary" and "Level 3 Valuation Reconciliation of Assets" (if applicable) in the Notes to Schedule of Investments.

The Portfolio adopted FASB Accounting Standards Update "Fair Value Measurements and Disclosures" (the "Update"). This Update applies to the Portfolio's disclosures about transfers in and out of Level 1 and Level 2 of the fair value hierarchy and the reasons for the transfers. Disclosures about the valuation techniques and inputs used to measure fair value for investments that fall in either Level 2 or Level 3 fair value hierarchy are summarized under the Level 2 and Level 3 categories listed above. There were no Level 3 securities during the period.

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy during the period.

Portfolio	*Transfers In Level 1 to Level 2*	*Transfers Out Level 2 to Level 1*
Janus Aspen Forty Portfolio	$123,175,466	$–

Financial assets were transferred from Level 1 to Level 2 since certain foreign equity prices were applied a fair valuation adjustment factor at the end of the period and no factor was applied at the beginning of the period.

The Portfolio recognizes transfers between the levels as of the beginning of the fiscal year.

In May 2011, the FASB issued Accounting Standards Update, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements." The Accounting Standards Update requires disclosures about amounts and reasons for all transfers in and out of Level 1 and Level 2 fair value measurements. The Company adopted this new guidance and there was no material impact on the Portfolio's financial statements. For fair value measurements categorized within Level 3 of the fair value hierarchy, the Portfolio shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. To meet the objective of the quantitative disclosure, the Portfolio may need to further disaggregate to provide more meaningful information about the significant unobservable inputs used and how these inputs vary over time.

The Portfolio is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the Portfolio when measuring fair value (for example, when a Portfolio uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure, the Portfolio cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the Portfolio.

In addition, the Accounting Standards Update requires the Portfolio to provide a narrative sensitivity disclosure of the fair value measurement changes in unobservable inputs and the interrelationships between those unobservable inputs for fair value measurements categorized with Level 3 of the fair value hierarchy.

2. Derivative Instruments

The Portfolio may invest in various types of derivatives, which may at times result in significant derivative exposure. A derivative is a financial instrument whose performance is derived from the performance of another asset. The Portfolio may invest in derivative instruments including, but not limited to: futures contracts, put options, call options, options on future contracts, options on foreign currencies, swaps, forward contracts, structured investments, and other equity-linked derivatives. Each derivative instrument that was held by the Portfolio during the period ended June 30, 2012 is discussed in further detail below. A summary of derivative activity is reflected in the tables at the end of this section.

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

Investments in derivatives in general are subject to market risks that may cause their prices to fluctuate over time. Investments in derivatives may not directly correlate with the price movements of the underlying instrument. As a result, the use of derivatives may expose the Portfolio to additional risks that it would not be subject to if it invested directly in the securities underlying those derivatives. The use of derivatives may result in larger losses or smaller gains than otherwise would be the case. Derivatives can be volatile and may involve significant risks, including, but not limited to, counterparty risk, credit risk, currency risk, equity risk, index risk, interest rate risk, leverage risk, and liquidity risk, as described below.

Derivatives may generally be traded OTC or on an exchange. Derivatives traded OTC, such as options and structured notes, are agreements that are individually negotiated between parties and can be tailored to meet a purchaser's needs.

OTC derivatives are not guaranteed by a clearing agency and may be subject to increased credit risk. In an effort to mitigate credit risk associated with derivatives traded OTC, the Portfolio may enter into collateral agreements with certain counterparties whereby, subject to certain minimum exposure requirements, the Portfolio may require the counterparty to post collateral if the Portfolio has a net aggregate unrealized gain on all OTC derivative contracts with a particular counterparty. There is no guarantee that counterparty exposure is reduced and these arrangements are dependent on Janus Capital Management LLC's ("Janus Capital") ability to establish and maintain appropriate systems and trading.

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

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

Options Contracts

An options contract provides the purchaser with the right, but not the obligation, to buy (call option) or sell (put option) a financial instrument at an agreed upon price. The Portfolio may purchase or write covered and uncovered put and call options on swap contracts ("swaptions"), futures contracts, and on portfolio securities for hedging purposes or as a substitute for an investment. The Portfolio is subject to interest rate risk, liquidity risk, equity risk, and currency risk in the normal course of pursuing its investment objective through its investments in options contracts. The Portfolio may use options contracts to hedge against changes in interest rates, the values of equities, or foreign currencies. The Portfolio may utilize American-style and European-style options. An American-style option is an option contract that can be exercised at any time between the time of purchase and the option's expiration date. A European-style option is an option contract that can only be exercised on the option's expiration date. The Portfolio may also purchase or write put and call options on foreign currencies in a manner similar to that in which futures or forward contracts on foreign currencies will be utilized. The Portfolio may also invest in long-term equity anticipation securities, which are long-term option contracts that can be maintained for a period of up to three years. The Portfolio may also enter into a swaption contract which grants the purchaser the right, but not the obligation, to enter into a swap transaction at preset terms detailed in the underlying agreement within a specified period of time. Entering into a swaption contract involves, to varying degrees, the elements of credit, market and interest rate risk, associated with both option contracts and swap contracts. The Portfolio generally invests in options to hedge against adverse movements in the value of portfolio holdings.

When an option is written, the Portfolio receives a premium and becomes obligated to sell or purchase the underlying security at a fixed price, upon exercise of the option. In writing an option, the Portfolio bears the risk of an unfavorable change in the price of the security underlying the written option. Exercise of an option written by the Portfolio could result in the Portfolio buying or selling a security at a price different from the current market value.

When an option is exercised, the proceeds on sales for a written call option, the purchase cost for a written put option, or the cost of the security for a purchased put or call option are adjusted by the amount of premium received or paid.

The Portfolio may also purchase and write exchange-listed and OTC put and call options on domestic securities indices, and on foreign securities indices listed on domestic and foreign securities exchanges. Options on securities indices are similar to options on securities except that (1) the expiration cycles of securities index options are monthly, while those of securities options are currently quarterly, and (2) the delivery requirements are different. Instead of giving the right to take or make delivery of securities at a specified price, an option on a securities index gives the holder the right to receive a cash "exercise settlement amount" equal to (a) the amount, if any, by which the fixed exercise price of the option exceeds (in the case of a put) or is less than (in the case of a call) the closing value of the underlying index on the date of exercise, multiplied by (b) a fixed "index multiplier." Receipt of this cash amount will depend upon the closing level of the securities index upon which the option is based being greater than, in the case of a call, or less than, in the case of a put, the exercise price of the index and the exercise price of the option times a specified multiple. The writer of the option is obligated, in return for the premium received, to make delivery of this amount.

Options traded on an exchange are regulated and the terms of the options are standardized. Options traded OTC expose the Portfolio to counterparty risk in the event that the counterparty does not perform. This risk is mitigated by having a netting arrangement between the Portfolio and the counterparty and by having the counterparty post collateral to cover the Portfolio's exposure to the counterparty.

Holdings of the Portfolio designated to cover outstanding written options are noted on the Schedule of Investments (if applicable). Options written are reported as a liability on the Statement of Assets and Liabilities as "Options written at value" (if applicable). Realized gains and losses are reported as "Net realized gain/(loss) from written options contracts" on the Statement of Operations (if applicable).

The risk in writing call options is that the Portfolio gives up the opportunity for profit if the market price of the security increases and the options are exercised. The risk in writing put options is that the Portfolio may incur a loss if the market price of the security decreases and the options are exercised. The risk in buying options is that the Portfolio pays a premium whether or not the options are exercised. The use of such instruments may involve certain additional risks as a result of unanticipated movements in the market. A lack of correlation between the value of an instrument underlying an option and the asset being hedged, or unexpected adverse price movements, could render the Portfolio's hedging strategy unsuccessful. In addition, there can be no assurance that a liquid secondary market will exist for any option purchased or sold. There is no limit to the loss the Portfolio may recognize due to written call options.

Written option activity for the period ended June 30, 2012 is indicated in the tables below:

Put Options	*Number of Contracts*	*Premiums Received*
Janus Aspen Forty Portfolio		
Options outstanding at December 31, 2011	5,000	$ 696,000
Options written	–	–
Options closed	–	–
Options expired	(5,000)	(696,000)
Options exercised	–	–
Options outstanding at June 30, 2012	–	$ –

In accordance with FASB guidance, the Portfolio adopted the provisions for "Derivatives and Hedging," which require qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

The following tables provide information about the effect of derivatives and hedging activities on the Portfolio's Statement of Operations for the period ended June 30, 2012.

The effect of Derivative Instruments on the Statement of Operations for the six-month period ended June 30, 2012

	Amount of Realized Gain/(Loss) on Derivatives Recognized in Income				
Derivatives not accounted for as hedging instruments	*Futures*	*Swaps*	*Options*	*Forward Currency Contracts*	*Total*
Equity Contracts	$–	$–	$696,000	$–	$696,000
Total	$–	$–	$696,000	$–	$696,000

Change in Unrealized Appreciation/(Depreciation) on Derivatives Recognized in Income					
Derivatives not accounted for as hedging instruments	*Futures*	*Swaps*	*Options*	*Forward Currency Contracts*	*Total*
Equity Contracts	$–	$–	$(572,160)	$–	$(572,160)
Total	$–	$–	$(572,160)	$–	$(572,160)

Please see the Portfolio's Statement of Operations for the Portfolio's "Net Realized and Unrealized Gain/(Loss) on Investments."

The value of derivative instruments at period end and the effect of derivatives on the Statement of Operations are indicative of the Portfolio's volume throughout the period.

3. Other Investments and Strategies

Additional Investment Risk

It is important to note that events in both domestic and international equity and fixed-income markets have resulted, and may continue to result, in an unusually high degree of volatility in the markets, with issuers that have exposure to the real estate, mortgage, and credit markets particularly affected. These events and the resulting market upheavals may have an adverse effect on the Portfolio, such as a decline in the value and liquidity of many securities held by the Portfolio, unusually high and unanticipated levels of redemptions, an increase in portfolio turnover, a decrease in NAV, and an increase in Portfolio expenses. Because the situation is unprecedented and widespread, it may also be unusually difficult to identify both investment risks and opportunities, which could limit or preclude the Portfolio's ability to achieve its investment objective. It is impossible to predict whether or for how long these conditions will continue. Therefore, it is important to understand that the value of your investment may fall, sometimes sharply, and you could lose money.

Further, the instability experienced in the financial markets has resulted in the U.S. Government and various other governmental and regulatory entities taking actions to address the financial crisis. These actions include, but are not limited to, the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") in July 2010, which is expected to dramatically change the way in which the U.S. financial system is supervised and regulated. More specifically, the Dodd-Frank Act provides for widespread regulation of financial institutions, consumer financial products and services, broker-dealers, over-the-counter derivatives, investment advisers, credit rating agencies, and mortgage lending, which expands federal oversight in the financial sector and may affect the investment management industry as a whole. Given the broad scope, sweeping nature, and the fact that many provisions of the Dodd-Frank Act must be implemented through future rulemaking, the ultimate impact of the Dodd-Frank Act, and any resulting regulation, is not yet certain. As a result, there can be no assurance that these government and regulatory measures will not have an adverse effect on the value or marketability of securities held by the Portfolio, including potentially limiting or completely restricting the ability of the Portfolio to use a particular investment instrument as part of its investment strategy, increasing the costs of using these instruments, or possibly making them less effective in general. Furthermore, no assurance can be made that the U.S. Government or any U.S. regulatory entity (or other authority or regulatory entity) will not continue to take further legislative or regulatory action in response to the economic crisis or otherwise, and the effect of such actions, if taken, cannot be known.

In addition, European markets have recently experienced volatility and adverse trends due to concerns about economic downturns, rising government debt levels, and the possible default of government debt in several European countries, including Greece, Ireland, Italy, Portugal, and Spain. A default or debt restructuring by any European country would adversely impact holders of that country's debt and worldwide sellers of credit default swaps linked to that country's creditworthiness. These events have adversely affected the value and exchange rate of the euro and may continue to significantly affect the economies of all European countries, which in turn may have a material adverse affect on a Portfolio's investments in such countries, other countries that depend on European countries for significant amounts of trade or investment, or issuers with exposure to European debt.

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

Counterparties

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

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

4. Investment Advisory Agreements and Other Transactions with Affiliates

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

Portfolio	*Base Fee Rate (%) (annual rate)*
Janus Aspen Forty Portfolio	0.64

For the Portfolio, the investment advisory fee rate is determined by calculating a base fee and applying a performance adjustment. The base fee rate is the same as the contractual investment advisory fee rate shown in the table above. The performance adjustment either increases or decreases the base fee depending on how well the Portfolio has performed relative to its benchmark index, as shown below:

Portfolio	*Benchmark Index*
Janus Aspen Forty Portfolio	Russell 1000® Growth Index

The calculation of the performance adjustment applies as follows:

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

The investment advisory fee rate paid to Janus Capital by the Portfolio consists of two components: (1) a base fee calculated by applying the contractual fixed rate of the advisory fee to the Portfolio's average daily net assets during the previous month ("Base Fee Rate"), plus or minus (2) a performance-fee adjustment ("Performance Adjustment") calculated by applying a variable rate of up to 0.15% (positive or negative) to the Portfolio's average daily net assets during the applicable performance measurement period. The performance measurement period generally is the previous 36 months, although no Performance Adjustment is made until the Portfolio's performance-based fee structure has been in effect for at least 18 months. When the Portfolio's performance-based fee structure has been in effect for at least 18 months, but less than 36 months, the performance measurement period is equal to the time that has elapsed since the performance-based fee structure took effect. Any applicable Performance Adjustment began January 2012 for the Portfolio.

No Performance Adjustment is applied unless the difference between the Portfolio's investment performance and the cumulative investment record of the Portfolio's benchmark index is 0.50% or greater (positive or negative) during the applicable performance measurement period. The Base Fee Rate is subject to an upward or downward Performance Adjustment for every full 0.50% increment by which the Portfolio outperforms or underperforms its benchmark index. Because the Performance Adjustment is tied to the Portfolio's relative performance compared to its benchmark index (and not its absolute performance), the Performance Adjustment could increase Janus Capital's fee even if the Portfolio's Shares lose value during the performance measurement period and could decrease Janus Capital's fee even if the Portfolio's Shares increase in value during the performance measurement period. For purposes of computing the Base Fee Rate and the Performance Adjustment, net assets are averaged over different periods (average daily net assets during the previous month for the Base Fee Rate, versus average daily net assets during the performance measurement period for the Performance Adjustment). Performance of the Portfolio is calculated net of expenses, whereas the Portfolio's benchmark index does not have any fees or expenses. Reinvestment of dividends and distributions is included in calculating both the performance of the Portfolio and the Portfolio's benchmark index. The Base Fee Rate is calculated and accrued daily. The Performance Adjustment is calculated monthly in arrears and is accrued throughout the month. The investment fee is paid monthly in arrears. Under extreme circumstances involving underperformance by a rapidly shrinking Portfolio, the dollar amount of the Performance Adjustment could be more than the dollar amount of the Base Fee Rate. In such circumstances, Janus Capital would reimburse the Portfolio.

The investment performance of the Portfolio's Service Shares for the performance measurement period is used to calculate the Performance Adjustment. After Janus Capital determines whether the Portfolio's performance was above or below its benchmark index by comparing the investment performance of the Portfolio's Service Shares against the cumulative investment record of its benchmark index, Janus Capital applies the same Performance Adjustment (positive or negative) across each other class of shares of the Portfolio, as applicable.

It is not possible to predict the effect of the Performance Adjustment on future overall compensation to Janus Capital since it depends on the performance of the Portfolio relative to the record of the Portfolio's benchmark index and future changes to the size of the Portfolio.

The Portfolio's prospectuses and statements of additional information contain additional information about performance-based fees. The amount shown as advisory fees on the Statement of Operations reflects the Base Fee Rate plus/minus any Performance Adjustment. During the period ended June 30, 2012, the Portfolio recorded a Performance Adjustment of $(756,935).

Janus Services LLC ("Janus Services"), a wholly-owned subsidiary of Janus Capital, is the Portfolio's transfer agent and receives certain out-of-pocket expenses for transfer agent services.

Janus Distributors LLC, a wholly-owned subsidiary of Janus Capital, is a distributor of the Portfolio. Service Shares adopted a Distribution and Shareholder Servicing Plan (the "Plan") pursuant to Rule 12b-1 under the 1940 Act. The Plan authorizes payments by the Portfolio to insurance companies, qualified retirement plan service providers or their affiliates, and other financial intermediaries in connection with the distribution of Service Shares at an annual rate of up to 0.25% of Service Shares average daily net assets. Payments under the Plan are not tied exclusively to actual distribution and shareholder service expenses, and the payments may exceed distribution and shareholder service expenses actually incurred by the Portfolio. If any of the Portfolio's actual distribution and shareholder service expenses incurred during a calendar year are less than the payments made during a calendar year, the Portfolio will be refunded the difference. Refunds, if any, are included in "Distribution fees and shareholder servicing fees" in the Statement of Operations.

The Board of Trustees has adopted a deferred compensation plan (the "Deferred Plan") for independent Trustees to elect to defer receipt of all or a portion of the annual compensation they are entitled to receive from the Portfolio. All deferred fees are credited to an account established in the name of the Trustees. The amounts credited to the account then increase or decrease, as the case may be, in accordance with the performance of one or more of the Janus funds that are selected by the Trustees. The account balance continues to fluctuate in accordance with the performance of the selected fund or funds until final payment of all amounts are credited to the account. The fluctuation of the account balance is recorded by the Portfolio as unrealized appreciation/(depreciation) and is shown as of June 30, 2012 on the Statement of Assets and Liabilities as an asset, "Non-interested Trustees' deferred compensation," and a liability, "Non-interested Trustees' deferred compensation fees." Additionally, the recorded unrealized appreciation/(depreciation) is included in "Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation" on the Statement of Assets and Liabilities. Deferred compensation expenses for the period ended June 30, 2012 are included in "Non-interested Trustees' fees and expenses" on the Statement of Operations. Trustees are allowed to change their designation of mutual funds from time to time. Amounts will be deferred until distributed in accordance with the Deferred Plan. Deferred fees of $48,918 were paid to a Trustee under the Deferred Plan during the period ended June 30, 2012.

Certain officers of the Portfolio may also be officers and/or directors of Janus Capital. The Portfolio's Chief Compliance Officer and certain other Portfolio officers may be compensated by the Portfolio. The Portfolio reimburses Janus Capital for a portion of the compensation paid to the Chief Compliance Officer and certain compliance staff as well as Janus Capital personnel providing administration services to the Portfolio. Total compensation of $40,224 was paid to the Chief Compliance Officer and certain compliance staff by the Trust during the period ended June 30, 2012. The Portfolio's portion is reported as part of "Other Expenses" on the Statement of Operations.

The Portfolio's expenses may be reduced by expense offsets from an unaffiliated custodian and/or transfer agent. Such credits or offsets are included in "Expense and Fee Offset" on the Statement of Operations (if applicable). The transfer agent fee offsets received during the fiscal year reduce "Transfer agent fees and expenses" on the Statement of Operations (if applicable). Custodian offsets received reduce "Custodian fees" on the Statement of Operations (if applicable). The Portfolio could have employed the assets used by the custodian and/or transfer agent to produce income if it had not entered into an expense offset arrangement.

Pursuant to the provisions of the 1940 Act and rules promulgated thereunder, the Portfolio may participate in an affiliated or nonaffiliated cash sweep program. In the cash sweep program, uninvested cash balances of the Portfolio may be used to purchase shares of affiliated or nonaffiliated money market funds or cash management pooled investment vehicles. The Portfolio is eligible to participate in the cash sweep program (the "Investing Fund"). Janus Cash Liquidity Fund LLC is an affiliated unregistered cash management pooled investment vehicle that invests primarily in highly-rated short-term fixed-income securities. Janus Cash Liquidity Fund LLC currently maintains a NAV of $1.00 per share and distributes income daily in a manner consistent with a registered 2a-7 product. There are no restrictions on the Portfolio's ability to withdraw investments from Janus Cash Liquidity Fund LLC at will, and there are no unfunded capital commitments due from the Portfolio to Janus Cash Liquidity Fund LLC. As adviser, Janus Capital has an inherent conflict of interest because of its fiduciary duties to the affiliated cash management pooled investment vehicles and the Investing Fund.

During the period ended June 30, 2012, the Portfolio recorded distributions from affiliated investment companies as affiliated dividend income, and had the following affiliated purchases and sales:

	Purchases Shares/Cost	*Sales Shares/Cost*	*Dividend Income*	*Value at 6/30/12*
Janus Aspen Forty Portfolio				
Janus Cash Liquidity Fund LLC	$92,533,220	$(79,079,000)	$19,383	$30,980,220

5. Federal Income Tax

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

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

The aggregate cost of investments and the composition of unrealized appreciation and depreciation of investment securities for federal income tax purposes as of June 30, 2012 are noted below.

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

Portfolio	*Federal Tax Cost*	*Unrealized Appreciation*	*Unrealized (Depreciation)*	*Net Tax Appreciation*
Janus Aspen Forty Portfolio	$707,694,138	$313,153,647	$(38,329,284)	$274,824,363

Net capital loss carryovers as of December 31, 2011 are indicated in the table below. These losses may be available to offset future realized capital gains and thereby reduce future taxable gains distributions. Under the recently enacted Regulated Investment Company Modernization Act of 2010, the Portfolio is permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. Losses incurred during those future years will be required to be utilized prior to the losses incurred in pre-enactment taxable years. As a result of this ordering rule, pre-enactment capital loss carryforwards may more likely expire unused. Also, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term as under previous law. The following table shows these capital loss carryovers.

Capital Loss Carryover Expiration Schedule
For the year ended December 31, 2011

Portfolio	*December 31, 2017*	*Accumulated Capital Losses*
Janus Aspen Forty Portfolio	$(64,279,281)	$(64,279,281)

6. Capital Share Transactions

For the six-month period ended June 30, 2012 (unaudited) and the fiscal year ended December 31, 2011 (all numbers in thousands)	*Janus Aspen Forty Portfolio 2012*	*2011*
Transactions in Portfolio Shares – Institutional Shares		
Shares sold	955	1,627
Reinvested dividends and distributions	41	55
Shares repurchased	(1,193)	(3,726)
Net Increase/(Decrease) in Portfolio Shares	(197)	(2,044)
Shares Outstanding, Beginning of Period	13,830	15,874
Shares Outstanding, End of Period	13,633	13,830
Transactions in Portfolio Shares – Service Shares		
Shares sold	978	1,519
Reinvested dividends and distributions	27	34
Shares repurchased	(1,411)	(3,909)
Net Increase/(Decrease) in Portfolio Shares	(406)	(2,356)
Shares Outstanding, Beginning of Period	12,759	15,115
Shares Outstanding, End of Period	12,353	12,759

7. Purchases and Sales of Investment Securities

For the period ended June 30, 2012, the aggregate cost of purchases and proceeds from sales of investment securities (excluding any short-term securities, short-term options contracts, and in-kind transactions) was as follows:

Portfolio	*Purchases of Securities*	*Proceeds from Sales of Securities*	*Purchases of Long-Term U.S. Government Obligations*	*Proceeds from Sales of Long-Term U.S. Government Obligations*
Janus Aspen Forty Portfolio	$72,741,891	$122,202,154	$–	$–

8. New Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-11, "Disclosures about Offsetting Assets and Liabilities." The update creates new disclosure requirements requiring entities to disclose both gross and net information for derivatives and other financial instruments that are either offset in the Statement of Assets and Liabilities or subject to an enforceable master netting arrangement or similar agreement. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. Management is currently evaluating the impact this update may have on the Portfolio's financial statements.

9. Subsequent Event

Management has evaluated whether any other events or transactions occurred subsequent to June 30, 2012 and through the date of issuance of the Portfolio's financial statements and determined that there were no material events or transactions that would require recognition or disclosure in the Portfolio's financial statements.

Additional Information (unaudited)

Proxy Voting Policies and Voting Record

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

Quarterly Portfolio Holdings

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

Explanations of Charts, Tables and Financial Statements (unaudited)

1. Performance Overviews

Performance overview graphs compare the performance of a hypothetical $10,000 investment in the Portfolio with one or more widely used market indices. The hypothetical example does not represent the returns of any particular investment.

When comparing the performance of the Portfolio with an index, keep in mind that market indices do not include brokerage commissions that would be incurred if you purchased the individual securities in the index. They also do not include taxes payable on dividends and interest or operating expenses incurred if you maintained the Portfolio invested in the index.

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

Pursuant to federal securities rules, expense ratios shown in the performance chart reflect subsidized (if applicable) and unsubsidized ratios for the prior fiscal year. The total annual fund operating expenses ratio is gross of any fee waivers, reflecting the Portfolio's unsubsidized expense ratio. The total annual fund operating expenses ratio is based on average net assets as of the fiscal year ended December 31, 2011. The ratio also includes expenses indirectly incurred by the Portfolio as a result of investing in other investment companies or pooled investments, which are not reflected in the "Financial Highlights" of this report. As a result, this ratio may be higher or lower than those shown in the "Financial Highlights" in this report. All expenses are shown without the effect of expense offset arrangements. Pursuant to such arrangements, credits realized as a result of uninvested cash balances are used to reduce custodian and transfer agent expenses.

2. Schedule of Investments

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

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

If the Portfolio invests in foreign securities, it will also provide a summary of investments by country. This summary reports the Portfolio's exposure to different countries by providing the percentage of securities invested in each country. The country of each security represents the country in which the company is incorporated. The Portfolio's Schedule of Investments relies upon the industry group and country classifications published by Bloomberg L.P.

2a. Options

A table listing written options contracts follows the Portfolio's Schedule of Investments (if applicable). Written options contracts are contracts that obligate the Portfolio to sell or purchase an underlying security at a fixed price, upon exercise of the option. Options are used to hedge against adverse movements in securities prices, currency risk or interest rates.

The table provides the name of the contract, number of contracts held, the expiration date, exercise price, value and premiums received.

3. Statement of Assets and Liabilities

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

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

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

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

Explanations of Charts, Tables and Financial Statements (unaudited) (continued)

4. Statement of Operations

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

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

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

The last section lists the increase or decrease in the value of securities held in the Portfolio. The Portfolio will realize a gain (or loss) when it sells its position in a particular security. An unrealized gain (or loss) refers to the change in net appreciation or depreciation of the Portfolio during the reporting period. "Net Realized and Unrealized Gain/(Loss) on Investments" is affected both by changes in the market value of Portfolio holdings and by gains (or losses) realized during the reporting period.

5. Statements of Changes in Net Assets

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

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

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

6. Financial Highlights

This schedule provides a per-share breakdown of the components that affect the Portfolio's NAV for current and past reporting periods. Not only does this table provide you with total return, it also reports total distributions, asset size, expense ratios and portfolio turnover rate.

The first line in the table reflects the NAV per share at the beginning of the reporting period. The next line reports the net investment income per share, which comprises dividends and interest income earned on securities held by the Portfolio. Following is the total of gains/(losses), realized and unrealized. Dividends and distributions are then subtracted to arrive at the NAV per share at the end of the period. The next line reflects the average annual total return reported the last day of the period. The total return may include adjustments in accordance with generally accepted accounting principles. As a result, the total return may differ from the total return reflected for shareholder transactions.

Also included are the expense ratios, or the percentage of average net assets that were used to cover operating expenses during the period. Expense ratios vary across Portfolios within the Trust for a number of reasons, including the differences in management fees, the frequency of dividend payments and the extent of foreign investments, which entail greater transaction costs.

The Portfolio's expenses may be reduced through expense-reduction arrangements. These arrangements may include the use of balance credits or transfer agent fee offsets. The Statement of Operations reflects total expenses before any such offset, the amount of the offset and the net expenses. The expense ratios are listed in the Financial Highlights.

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

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

Janus provides access to a wide range of investment disciplines.

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

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

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

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

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

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

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

For more information about our funds, contact your investment professional or go to janus.com/variable-insurance.

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Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, please call Janus at 1-877-335-2687 or download the file from janus.com/variable-insurance. Read it carefully before you invest or send money.

Funds distributed by Janus Distributors LLC (08/12)

C-0712-010

109-24-81115 08-12

2011 Management Fee Evaluation

To be accompanied with the Janus Aspen Series June 30, 2012 Semiannual Report

During 2011, and particularly during November and December, the Boards of Trustees (Trustees) of Janus Investment Fund (JIF) and Janus Aspen Series (JAS) reviewed significant information in connection with considering the continuation of existing investment advisory agreements in effect between Janus Capital Management LLC (JCM) and certain series of JIF and JAS (together, the Janus Funds).[1] In connection with their review, the Trustees engaged an independent fee consultant to assist them in the evaluation of the following fee-related issues:

- the nature, extent, and quality of JCM's services provided to the Janus Funds, including fund performance;
- management fees[2] (and components thereof) charged by other mutual fund advisers for similar services, including a comparison of total expenses;[3]
- management fees (and components thereof) charged to JCM's institutional and other clients for similar services;
- costs to JCM and its affiliates of providing services pursuant to the investment advisory agreements;
- profit margins of JCM and its affiliates from providing those services;
- possible economies of scale as a fund grows larger; and
- continued use of performance fees on certain Janus Funds.

On December 8, 2011, the Trustees approved the continuation of the existing investment advisory agreements and related administration agreements for each of the Janus Funds, having determined, in consultation with their independent fee consultant, that the management fees charged by JCM to each of the Janus Funds, in relation to the services provided by JCM, were reasonable.

The following summarizes the findings of the independent fee consultant retained by the Trustees as provided to the Trustees on December 8, 2011.

Summary Findings

Over three years, JCM delivered strong, though declining, performance to the Janus Funds at management fees that are significantly lower than the mean management fees charged by the advisers of comparable mutual funds. For the 36 months ended September 30, 2011, approximately 45% of the Janus Funds were in the top quartile of performance when compared to their respective peer groups established by Lipper, Inc. ("Lipper") based on total returns, and approximately 62% were in the top two quartiles. For the 12 months ended September 30, 2011, approximately 18% of the Janus Funds were in the top quartile of performance, and approximately 41% were in the top two quartiles. Fifty-five percent of the Janus Funds had a four- or five-star overall rating from Morningstar as of September 30, 2011. Please visit janus.com or call 877-335-2687 for more recent performance information for the Janus Funds.

For the fiscal periods ended December 31, 2010[4] or March 31, 2011[5] (together, the "Fiscal Periods"), the total expenses of the Janus Funds were, on average, 15% below the mean total expenses of each fund's respective Lipper Expense Group and 23% below the mean total expenses for the respective Lipper Expense Universe.

For the Fiscal Periods, the management fees for the Janus Funds were, on average, 8% below the mean management fees for each fund's respective Lipper Expense Group and 9% below the mean for their respective Lipper Expense Universe.

Within those larger averages, the management fees and total expenses of individual Janus Funds and share classes are reasonable.

The management fees JCM charges to the Janus Funds are also reasonable in relation to the management fees it charges to its institutional and subadvised accounts. Those other accounts have different service and infrastructure needs. Moreover, the average spread between management fees charged to the Janus Funds and those charged to JCM's institutional and subadvised accounts is less than the average spread between such management fees charged by other advisers according to recent industry surveys.

The level of profit earned by JCM from managing the Janus Funds appears to be reasonable.

Analysis completed by the independent fee consultant cannot definitively demonstrate or confirm overall economies of scale in the Janus complex. Shareholders are well served by the fee levels and structures in place on the Janus Funds in light of any economies of scale that may be present.

The indices and methodologies used in the calculation of performance fees are appropriate, including for continued use. The use of performance fee adjustments has not had a negative impact on the portfolio management or risk profile of the Janus Funds that have performance fees.

Findings Related to Specific Factors

The following information contains certain conclusions of the independent fee consultant with respect to each of the factors described above:

I. Nature and Quality of Services Provided

JCM provides a number of different services for the Janus Funds and their shareholders ranging from investment management services to various other servicing functions. JCM is a capable provider of those services. JCM has developed a number of institutional competitive advantages that should enable it to provide superior investment and service performance for its clients over the long term. These include:

- **Leading Edge Research -** JCM has a research staff that provides a steady stream of proprietary ideas and analytical rigor to the Janus fund managers.
- **Breadth of Research Coverage -** JCM has invested in growing its research talent into a number of different market sectors and asset classes. This expanded breadth allows Janus fund managers a broader base of investment options and more opportunities to find undervalued securities.
- **Performance-Focused Culture -** JCM has a performance-driven culture combining both strong competitive instincts and collegial cooperation. JCM's Denver location, away from the major financial centers, can be a positive element in building a strong team and culture.

- **Customer Service-Driven Culture -** In their customer service and transfer agency operations, JCM and its affiliates have maintained a strong commitment to service and to measurements that track service performance. JCM has made continual improvements to its website, providing strong web-based service capabilities. As the market has evolved towards advice-driven channels, JCM has evolved its distribution organization and services to support these new channels. JCM continues to add infrastructure to support these new intermediaries.
- **Efficient Cost Structure and Associated Low Total Expenses -** JCM has developed an ability to leverage its investment management personnel across larger pools of assets than many other complexes. To the extent lower operating costs at JCM allow for lower management fees or additional investments in investment management, these lower costs can enhance performance of the Janus Funds.
- **Financial Discipline -** JCM has shown strong financial discipline in recent years by aggressively managing its costs in the face of declines in revenues. Throughout this process, JCM has continued to invest in its research personnel to maintain its core competence in investment management. Janus has also preserved core capabilities while cutting costs and restructuring its capital structure on a more conservative basis.
- **Quality Trading Infrastructure -** JCM maintains trading operations in Denver, London, and Singapore. The U.S. trading personnel are competent, qualified professionals supported by strong systems and market linkages. In particular it was noted that JCM traders are a significant source of advantage for JCM in obtaining best execution on trades.

II. Total Expenses Paid by the Janus Funds vs. Those Paid by Other Mutual Funds

All Janus Funds: As of the Fiscal Periods, the total expenses of each of the Janus Funds were, on average, 15% to 23% below the mean total expenses of comparable funds within a fund's respective Lipper peer group. In most cases, Janus was below peer expenses for expense components of individual fund segments. There were five key areas where a certain component of Janus average expenses for a given fund category was above peer expenses.

These five areas were (a) Janus Money Market Funds management fees, (b) Janus Specialty Funds nonmanagement expenses, (c) Janus Fixed-Income Funds management fees, (d) Janus Value Funds management fees, and (e) Janus Core Funds nonmanagement expenses. Each of these areas received deeper analysis. The independent fee consultant concluded that, in those areas where a JCM expense component was above peer expense averages, such variances were reasonable.

Please visit janus.com/info (or janus.com/reports if you hold shares directly with Janus) or call Janus at 877.33JANUS (or 800.525.3713 if you hold shares directly with Janus) for information on Janus Funds' expenses or to obtain a prospectus or, if available, a summary prospectus that includes a description of such expenses.

Individual Janus Funds (consisting of 239 individual share classes): As of the Fiscal Periods, 113 of the Janus Funds' share classes had a level of performance versus peers significantly better than the relative level of their expenses versus peers.[6] Another 58 of the Janus Funds' share classes were found to have expense ratios that appeared balanced in relation to their performance.[7] Within this group, individual classes with higher expenses had higher performance; and individual classes with lower expenses had lower performance. Thirteen share classes did not yet have three-year performance histories for evaluation and such classes were categorized based on one-year of returns.[8] Six share classes were new to 2011 and did not yet have one year of performance history available for analysis. The screening criteria was not applied to these share classes.[9] Analysis of 49 share classes found that trend lines by fund, recent and planned corrective action, assets under management (AUM) levels, average account sizes and other factors found expenses on these classes to be reasonable.[10]

III. Management Fees Paid by Janus Funds vs. Those Paid by Other Mutual Funds

All Janus Funds: The asset-weighted mean management fee paid by the Janus Funds for the Fiscal Periods was 8% below the 0.68% mean management fees of the respective Lipper Expense Group and 9% below the 0.69% mean management fees of the respective Lipper Expense Universe.

Individual Janus Funds (consisting of 235 individual share classes): As of the Fiscal Periods, 119 of the Janus Funds' share classes had a level of performance versus peers significantly better than the relative level of their management fees versus peers.[11] Forty-five classes were found to have management fees that appeared balanced in relation to their performance.[12] Within the latter group, individual classes with higher management fees had higher performance, and individual classes with lower management fees had lower performance. Thirteen share classes did not yet have three-year performance histories for evaluation and were categorized based on one-year returns.[8] Five share classes were in full management fee waiver typically associated with smaller funds.[13] Six share classes were new to 2011 and did not have one year of performance history available for analysis. The screening criteria was not applied to these share classes.[9] Forty-seven share classes received more detailed review. The detailed review of these classes found that trend lines and/or planned corrective actions were likely to result in reasonable fee and service combinations for investors.[14]

IV. Management Fees Paid by Janus Funds vs. Those Paid by Other Janus Clients

In addition to managing mutual funds, JCM also provides investment management and services to other types of clients, including institutional/private accounts (also called separate accounts) and subadvised mutual funds. Similar to other asset managers, JCM's services for these different account types have significant differences, as shown below.

Mutual Funds	Institutional Accounts
- Serve a large base of investors	- Serve a narrower base of investors
- Distributed mostly by intermediaries	- Distributed directly
- Small shareholder account balances	- Large account balances
- Standardized pricing/fees	- Customized pricing/fees
- Standardized reporting	- Customized reporting
- Offer daily liquidity	- Offer less than daily liquidity
- Subject to 1940 Act regulation	- Not subject to 1940 Act regulation
- Extensive regulatory reporting	- Limited regulatory reporting
- Board oversight	- No Board oversight
- Class action suits filed	- No class action suits filed

Within the industry, pricing for different account types reflects those differences. The independent fee consultant reviewed industry data on institutional account fees and subadvised fees, and analyzed the fee spreads between JCM institutional accounts and their mutual fund counterparts, relative to retail-institutional fee spreads seen across the industry. The independent fee consultant believes that the differential between management fees charged to the Janus Funds by JCM and management fees charged to institutional and subadvised accounts by JCM are reasonable in light of the different levels of services provided.

V. JCM Costs and Profitability

JCM generated profit margins that are in line with other large public advisers. In the opinion of the independent fee consultant, healthy profitability should help investors by ensuring JCM has the continued ability to attract top investment management talent, and a continuing ability to invest in those resources and business activities that produce superior performance.

VI. Possible Economies of Scale

As a manager of a large fund complex, JCM and the Janus Funds may have economies of scale in certain cost elements that can provide benefits as assets grow. Some areas which may have such benefits are:

- **Out of Pocket Expenses -** The Janus Funds may share directly in any expense reductions negotiated with third-party service providers.
- **Brokerage Commissions -** The Janus Funds share directly in economies of scale through JCM's negotiation of favorable brokerage commission rates.
- **Other -** The Janus Funds can also benefit indirectly from economies of scale through the enhanced levels of resources such economies provide to JCM in its pursuit of performance. One example of this is the addition of research staff as assets grow.
- **Other Fund Nonmanagement Expenses -** The Janus Funds may also benefit from a reduction in certain nonmanagement expenses that tend to decline, in terms of basis points, as fund sizes get larger.

There may be diseconomies of scale in certain costs that can work against economies found in other cost elements. Some areas which may have such diseconomies are:

- large complex legal and regulatory costs; and
- concentrated fund trading costs.

The independent fee consultant considered various analytical approaches in viewing economies or diseconomies of scale.

VII. Continued Use of Performance Fees on Janus Funds

In assessing whether the continued use of performance fees on certain Janus Funds is appropriate, the independent fee consultant considered (a) the appropriateness of benchmarks used, (b) the appropriateness of the performance calculation methodology, (c) whether any performance-based adjustment had any adverse effect on the management or risk profile of the Janus Funds that have performance fees, and (d) the appropriateness of the continued use of performance-based adjustment structure set out in the advisory agreements. Following this review, the independent fee consultant determined that the continued use of performance fees is appropriate for Janus Funds that charge a performance fee and is in the interests of fund shareholders.

Conclusions

The independent fee consultant concluded that the services provided by JCM and expenses incurred by the Janus Funds over the prior year were reasonable and provide adequate justification for continuation of the Janus Funds' existing advisory agreements.

Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, please call Janus at 877.335.2687 (or 800.525.3713 if you hold shares directly with Janus) or download the file from janus.com/info (or janus.com/reports if you hold shares directly with Janus). Read it carefully before you invest or send money.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the Fund.

[1] The Trustees considered information related to all share classes of each fund within JIF and JAS that had commenced operations as of July 31, 2010.

[2] "Management fees" refers to the actual annual rate of advisory and administration fees, if any, net of any waivers, paid by a fund as a percentage of the fund's average net assets.

[3] "Total expenses" refers to the total annual expenses, net of any fee waivers, paid by a fund as a percentage of the fund's average net assets.

[4] The Janus Funds with the fiscal period ended December 31, 2010 are: Janus Conservative Allocation Fund, Janus Flexible Bond Fund, Janus Government Money Market Fund, Janus Growth Allocation Fund, Janus High-Yield Fund, Janus Moderate Allocation Fund, Janus Money Market Fund, Janus Short-Term Bond Fund, Janus World Allocation Fund, INTECH International Fund, INTECH U.S. Core Fund, INTECH U.S. Growth Fund, INTECH U.S. Value Fund, Perkins Large Cap Value Fund, Perkins Mid Cap Value Fund, Perkins Small Cap Value Fund, Perkins Value Plus Income Fund, Janus Aspen Balanced Portfolio, Janus Aspen Enterprise Portfolio, Janus Aspen Flexible Bond Portfolio, Janus Aspen Forty Portfolio, Janus Aspen Global Technology Portfolio, Janus Aspen Janus Portfolio, Janus Aspen Overseas Portfolio, Janus Aspen Perkins Mid Cap Value Portfolio, and Janus Aspen Worldwide Portfolio.

[5] The Janus Funds with the fiscal period ended March 31, 2011 are: Janus Balanced Fund, Janus Contrarian Fund, Janus Enterprise Fund, Janus Forty Fund, Janus Fund, Janus Global Life Sciences Fund, Janus Global Market Neutral Fund, Janus Global Real Estate Fund, Janus Global Research Fund, Janus Global Select Fund, Janus Global Technology Fund, Janus Growth and Income Fund, Janus International Equity Fund, Janus Overseas Fund, Janus Research Fund, Janus Triton Fund, Janus Twenty Fund, Janus Venture Fund, Janus Worldwide Fund, and Perkins Global Value Fund.

[6] The 113 Janus Funds' share classes are: Janus Balanced Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Conservative Allocation Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class S Shares, Class T Shares), Janus Flexible Bond Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Global Real Estate Fund (Class A Shares, Class C Shares, Class I Shares, Class S Shares, Class T Shares), Janus Global Research Fund (Class A Shares, Class D Shares, Class T Shares), Janus Global Technology Fund (Class D Shares), Janus Growth Allocation Fund (Class D Shares, Class I Shares, Class T Shares), Janus High-Yield Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus International Equity Fund (Class A Shares, Class C Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Moderate Allocation Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class S Shares, Class T Shares), Janus Overseas Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class S Shares, Class T Shares), Janus Research Fund (Class A Shares, Class D Shares, Class I Shares, Class S Shares, Class T Shares), Janus Short-Term Bond Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class S Shares, Class T Shares), Janus Triton Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Venture Fund (Class D Shares, Class T Shares), INTECH U.S. Core Fund (Class D Shares, Class I Shares), INTECH U.S. Growth Fund (Class I Shares, Class T Shares), Perkins Global Value Fund (Class C Shares, Class D Shares, Class I Shares, Class S Shares, Class T Shares), Perkins Mid Cap Value Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class L Shares, Class R Shares, Class S Shares, Class T Shares), Perkins Small Cap Value Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class L Shares, Class R Shares, Class S Shares, Class T Shares), Janus Aspen

Balanced Portfolio (Institutional Shares, Service Shares), Janus Aspen Flexible Bond Portfolio (Institutional Shares, Service Shares), Janus Aspen Global Technology Portfolio (Institutional Shares, Service II Shares), Janus Aspen Overseas Portfolio (Institutional Shares, Service Shares, Service II Shares), and Janus Aspen Perkins Mid Cap Value Portfolio (Institutional Shares, Service Shares).

[7] The 58 Janus Funds' share classes are: Janus Enterprise Fund (Class D Shares, Class I Shares, Class S Shares, Class T Shares), Janus Fund (Class D Shares, Class I Shares, Class S Shares, Class T Shares), Janus Global Life Sciences Fund (Class D Shares, Class I Shares), Janus Global Research Fund (Class C Shares, Class I Shares, Class S Shares), Janus Global Select Fund (Class A Shares, Class D Shares, Class I Shares, Class S Shares, Class T Shares), Janus Global Technology Fund (Class A Shares, Class I Shares, Class S Shares, Class T Shares), Janus Government Money Market Fund (Class D Shares, Class T Shares), Janus Growth and Income Fund (Class D Shares), Janus Growth Allocation Fund (Class A Shares, Class C Shares, Class S Shares), Janus Money Market Fund (Class D Shares, Class T Shares), Janus Overseas Fund (Class R Shares), Janus Research Fund (Class C Shares), Janus Worldwide Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class S Shares, Class T Shares), INTECH International Fund (Class A Shares, Class C Shares, Class S Shares), INTECH U.S. Core Fund (Class A Shares, Class C Shares, Class S Shares, Class T Shares), INTECH U.S. Growth Fund (Class A Shares, Class C Shares, Class S Shares), INTECH U.S. Value Fund (Class A Shares, Class C Shares, Class I Shares, Class T Shares), Perkins Global Value Fund (Class A Shares), Janus Aspen Enterprise Portfolio (Institutional Shares, Service Shares), Janus Aspen Global Technology Portfolio (Service Shares), and Janus Aspen Janus Portfolio (Institutional Shares, Service Shares).

[8] The 13 Janus Funds' share classes are: Janus Global Real Estate Fund (Class D Shares), Janus International Equity Fund (Class D Shares), Janus World Allocation Fund (Class A Shares, Class C Shares, Class I Shares, Class S Shares, Class T Shares), and Perkins Large Cap Value Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class S Shares, Class T Shares).

[9] The 6 Janus Fund share classes are: Perkins Value Plus Income Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class S Shares, Class T Shares).

[10] The 49 Janus Funds' share classes are: Janus Contrarian Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Enterprise Fund (Class A Shares, Class C Shares, Class R Shares), Janus Forty Fund (Class A Shares, Class C Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Fund (Class A Shares, Class C Shares, Class R Shares), Janus Global Life Sciences Fund (Class A Shares, Class C Shares, Class S Shares, Class T Shares), Janus Global Market Neutral Fund (Class A Shares, Class C Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Global Select Fund (Class C Shares, Class R Shares), Janus Global Technology Fund (Class C Shares), Janus Growth and Income Fund (Class A Shares, Class C Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Twenty Fund (Class D Shares, Class T Shares), Janus Worldwide Fund (Class R Shares), INTECH International Fund (Class I Shares, Class T Shares), INTECH U.S. Value Fund (Class S Shares), Janus Aspen Forty Portfolio (Institutional Shares, Service Shares), and Janus Aspen Worldwide Portfolio (Institutional Shares, Service Shares, Service II Shares).

[11] The 119 Janus Funds' share classes are: Janus Balanced Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Conservative Allocation Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class S Shares, Class T Shares), Janus Flexible Bond Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Global Real Estate Fund (Class A Shares, Class C Shares, Class I Shares, Class S Shares, Class T Shares), Janus Global Research Fund (Class A Shares, Class D Shares, Class I Shares, Class T Shares), Janus Growth Allocation Fund (Class I Shares), Janus High-Yield Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus International Equity Fund (Class A Shares, Class C Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Moderate Allocation Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class S Shares, Class T Shares), Janus Overseas Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Research Fund (Class A Shares, Class D Shares, Class I Shares, Class T Shares), Janus Short-Term Bond Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class S Shares, Class T Shares), Janus Triton Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Venture Fund (Class D Shares, Class T Shares), INTECH U.S. Core Fund (Class A Shares, Class D Shares, Class I Shares, Class T Shares), INTECH U.S. Growth Fund (Class A Shares, Class I Shares, Class T Shares), INTECH U.S. Value Fund (Class A Shares, Class I Shares, Class T Shares), Perkins Global Value Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class S Shares, Class T Shares), Perkins Mid Cap Value Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class L Shares, Class R Shares, Class S Shares, Class T Shares), Perkins Small Cap Value Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class L Shares, Class R Shares, Class S Shares, Class T Shares), Janus Aspen Balanced Portfolio (Institutional Shares, Service Shares), Janus Aspen Flexible Bond Portfolio (Institutional Shares, Service Shares), Janus Aspen Global Technology Portfolio (Institutional Shares, Service Shares, Service II Shares), Janus Aspen Overseas Portfolio (Institutional Shares, Service Shares, Service II Shares), and Janus Aspen Perkins Mid Cap Value Portfolio (Institutional Shares, Service Shares).

[12] The 45 Janus Funds' share classes are: Janus Enterprise Fund (Class A Shares, Class D Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Fund (Class D Shares), Janus Global Life Sciences Fund (Class I Shares), Janus Global Research Fund (Class C Shares, Class S Shares), Janus Global Select Fund (Class A Shares, Class D Shares, Class I Shares, Class S Shares, Class T Shares), Janus Global Technology Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class S Shares, Class T Shares), Janus Growth Allocation Fund (Class A Shares, Class C Shares, Class D Shares, Class S Shares, Class T Shares), Janus Research Fund (Class C Shares, Class S Shares), Janus Worldwide Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), INTECH U.S. Core Fund (Class C Shares, Class S Shares), INTECH U.S. Growth Fund (Class C Shares, Class S Shares), INTECH U.S. Value Fund (Class C Shares, Class S Shares), Janus Aspen Enterprise Portfolio (Institutional Shares, Service Shares), and Janus Aspen Janus Portfolio (Institutional Shares, Service Shares).

[13] The 5 Janus Fund share classes are: INTECH International Fund (Class A Shares, Class C Shares, Class I Shares, Class S Shares, Class T Shares).

[14] The 47 Janus Funds' share classes are: Janus Contrarian Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Enterprise Fund (Class C Shares), Janus Forty Fund (Class A Shares, Class C Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Fund (Class A Shares, Class C Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Global Life Sciences Fund (Class A Shares, Class C Shares, Class D Shares, Class S Shares, Class T Shares), Janus Global Market Neutral Fund (Class A Shares, Class C Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Global Select Fund (Class C Shares, Class R Shares), Janus Growth and Income Fund (Class A Shares, Class C Shares, Class D Shares, Class I Shares, Class R Shares, Class S Shares, Class T Shares), Janus Twenty Fund (Class D Shares, Class T Shares), Janus Aspen Forty Portfolio (Institutional Shares, Service Shares), and Janus Aspen Worldwide Portfolio (Institutional Shares, Service Shares, Service II Shares).

As of April 27, 2012, Service II Shares of Janus Aspen Global Technology Portfolio and Janus Aspen Overseas Portfolio converted to Service Shares of each respective Portfolio.

As of April 27, 2012, Service II Shares of Janus Aspen Worlwide Portfolio were liquidated.

Funds distributed by
Janus Distributors LLC (08/12)

109-29-11115 08-12

PIMCO

Your Global Investment Authority

PIMCO Variable Insurance Trust

PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

This brochure contains the following documents:

- Supplement dated July 16, 2012 to the Prospectus regarding investments in high yield securities

- The Semiannual Report dated June 30, 2012

A company of Allianz

PIMCO Variable Insurance Trust

Supplement Dated July 16, 2012 to the
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Administrative Class Prospectus and
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Institutional Class Prospectus (each dated April 30, 2012)
(each a "Prospectus"), each as supplemented from time to time

Effective immediately, the sixth sentence of the second paragraph of the Portfolio's "Portfolio Summary—Principal Investment Strategies" section in each Prospectus is deleted in its entirety and replaced with the following:

The Portfolio invests primarily in investment grade debt securities, but may invest up to 10% of its total assets in high yield securities ("junk bonds") rated B or higher by Moody's Investors Service, Inc. ("Moody's"), or equivalently rated by Standard & Poor's Rating Services ("S&P") or Fitch, Inc. ("Fitch"), or, if unrated, determined by PIMCO to be of comparable quality (except that within such limitation, the Portfolio may invest in mortgage-backed securities rated below B).

Investors Should Retain This Supplement for Future Reference

PVIT_SUPP3_071612

This supplement is not part of the Semiannual Report and is not authorized for distribution to prospective investors unless preceded or accompanied by a current prospectus.

P I M C O

Semiannual Report
June 30, 2012

Your Global Investment Authority

PIMCO Variable Insurance Trust

Share Class

- Administrative

A company of Allianz

Table of Contents

Dear PIMCO Variable Insurance Trust Shareholder,

We are pleased to provide you with the Semiannual Report for the PIMCO Variable Insurance Trust covering the six-month reporting period ended June 30, 2012. On the following pages please find specific details as to the Portfolio's investment performance and a discussion of the factors that affected performance.

During the six-month reporting period, market volatility remained high and investors were focused on a slowing global economy and the ongoing uncertainty in Europe. While central banks' liquidity measures led to a market rebound in the first quarter of the reporting period, risk assets came under renewed pressure in the second quarter as European political uncertainty intensified, sovereigns and financials were downgraded, and weaker U.S. economic data challenged the modest U.S. cyclical recovery. Most major economies showed signs of growth deceleration, and stubbornly high unemployment in the U.S. and Europe also began to impact consumer sentiment and spending. The Federal Reserve (the "Fed") continued to indicate that economic conditions were likely to warrant exceptionally low interest rates at least through 2014. The Fed responded to growing economic strains by extending through the end of 2012 its renewed "Operation Twist" program, which extends the average maturity of its holdings of securities, and also signaled willingness for further monetary easing if weakness in the U.S. economy persists.

Investors were somewhat relieved by the result of the Greek election on June 17 in which the New Democracy party won sufficient number of votes to be the largest party in the Greek Parliament, helping to form a pro-euro coalition government. However, this improved investor sentiment was offset by rising yields on Spanish sovereign debt that reached new highs towards the latter part of the period. This led the independent ratings agencies to downgrade Spain's credit rating as well as a round of downgrades on Spanish banks. In addition, concern over the solvency of Spanish banks forced the Spanish government to request eurozone rescue loans for its undercapitalized banks. Towards the very end of the period, investor sentiment regained some hope in reaction to the European Union summit in late June that resulted in agreements on short-term stabilization measures whereby the European Stability Mechanism (a pan-eurozone financial supervisor) would be able to invest capital directly into ailing banks, marking a step closer to a more integrated fiscal union.

In our opinion, the problems in Europe should remain factors causing continued sovereign credit market downside and market volatility. It highlights a number of issues facing many European countries, in which peripheral (and in some cases central) European economies suffer from a loss of competitiveness, negative demographics, high unemployment, currency rigidity, and high sovereign debt levels.

Highlights of the financial markets during our six-month fiscal reporting period include:

- Risk aversion drove interest rates down across developed markets, including in the U.S. and Germany where yields touched historic lows. By contrast, sovereign yields in Spain and Italy rose towards prohibitive levels. Yields on U.S. Treasury securities reversed an upward trend in the first quarter of the reporting period and declined significantly in the second quarter, ending the period lower (with prices on these securities therefore higher). Investors looked to U.S. Treasuries for their perceived safety and quality due to increasing concern of a global economic slowdown and continued uncertainty in Europe. The benchmark ten-year U.S. Treasury note yielded 1.64% at the end of the reporting period, as compared to 1.88% on December 31, 2011. The Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, returned 2.37% for the period.

- The Fed kept the Federal Funds Rate anchored within a range of zero to 0.25%; the Bank of England held its key lending rate at 0.50% and initiated increased monetary stimulus to shore up the U.K. economy; and outside of the reporting period on July 5, 2012, the European Central Bank reduced its main policy rate to 0.75% from 1.00%.

- U.S. Treasury Inflation-Protected Securities ("TIPS") returned 4.04% over the period, as represented by the Barclays U.S. TIPS Index. U.S. TIPS gained on a rally in longer-dated real yields given weak economic data and rising expectations for further easing actions by the Fed, but trailed their nominal counterparts as nominal yields saw a more significant rally. Shorted-dated U.S. TIPS sold off as real yields increased amid a sharp drop in many commodity prices. With short maturity nominal yields anchored at nearly zero due to Fed policy, changes in short term inflation expectations were the main driver of short-dated real yields.

- Diversified commodities posted negative returns, as represented by the Dow Jones-UBS Commodity Index Total Return, which declined 3.70% over the period. The sell-off in commodities was led by lower energy and industrial metals prices. Within the energy sector, crude oil prices declined on the re-pricing of global growth despite continued tensions in the Middle East. Natural gas sold off due to a very mild winter in the U.S.; however, natural gas prices rebounded somewhat in the second quarter amid hot weather conditions and expected cooling demand. The industrial metals sector performed poorly as markets priced in reduced demand from slower global growth, particularly within China, the U.S. and Europe.
- Investment grade corporate bonds and high yield credits outperformed like-duration U.S. Treasuries as corporate fundamentals generally remained robust. The bonds of financial companies outpaced the broader corporate market, particularly late in the reporting period, as the impact from ratings downgrades of U.S. banks were largely benign. Despite uncertain market conditions, issuance remained resilient, while primary market demand remained strong as investors continued to place a premium on liquidity.
- Agency mortgage-backed securities ("MBS") outperformed like-duration U.S. Treasuries over the entire reporting period on strong demand from banks and mortgage real estate investment trusts ("REITs"), despite underperforming in the last quarter of the reporting period. Lower coupon mortgages generally outperformed higher coupon mortgages due to elevated prepayment fears as government streamlined refinance programs became more efficient. Commercial mortgage-backed securities ("CMBS") outperformed U.S. Treasuries due to increased demand for higher yielding risk assets and non-Agency MBS performed well, driven by signs of a bottom in the housing market and positive supply data.
- Global equity markets generally posted positive returns but were highly volatile throughout the reporting period as investors oscillated between being "risk on" or "risk off" in response to a slowing global economy and on-going uncertainty in the eurozone. U.S. equities, as measured by the S&P 500 Index, returned 9.49%; global equities, as represented by the MSCI World Index, returned 5.91%. Emerging market ("EM") equities, as represented by the MSCI Emerging Markets Index, returned 3.93%.
- EM fixed income assets managed to post strong returns despite a volatile market environment. U.S. dollar-denominated EM assets outperformed locally-denominated EM assets, benefiting from the rally in U.S. Treasuries as well as from spread compression during the "risk-on" period for investors. Overall, countries with lower credit quality generally fared better than their investment grade counterparts. In the local space, amidst the months in which risk appetite ebbed, EM currencies suffered. As such, EM currencies were the worst performers during the first half of the reporting period, but nonetheless managed to post positive returns. Local EM debt posted positive returns and benefited from the rally that drove down local yields and led to higher local currency values.

Thank you once again for the trust you have placed in us. We value your commitment and will continue to work diligently to meet your investment needs.

Sincerely,

Brent R. Harris

Brent R. Harris
President and Chairman of the Board, PIMCO Variable Insurance Trust

July 25, 2012

Important Information About the Portfolio

PIMCO Variable Insurance Trust (the "Trust") is an open-end management investment company currently consisting of twenty separate investment portfolios, including the PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) (the "Portfolio"). The Portfolio is only available as a funding vehicle under variable life insurance policies or variable annuity contracts issued by insurance companies ("Variable Contracts"). Individuals may not purchase shares of the Portfolio directly. Shares of the Portfolio also may be sold to qualified pension and retirement plans outside of the separate account context.

We believe that bond funds have an important role to play in a well diversified investment portfolio. It is important to note, however, that in an environment where interest rates may trend upward, rising rates would negatively impact the performance of most bond funds, and fixed-income securities held by a fund are likely to decrease in value. The price volatility of fixed-income securities can also increase during periods of rising interest rates resulting in increased losses to a fund. Bond funds and individual bonds with a longer duration (a measure used to determine the sensitivity of a security's price to changes in interest rates) tend to be more sensitive to changes in interest rates, usually making them more volatile than securities or funds with shorter durations.

The Portfolio may be subject to various risks in addition to those described above. Some of these risks may include, but are not limited to, the following: interest rate risk, credit risk, high yield risk, market risk, issuer risk, liquidity risk, derivatives risk, equity risk, mortgage-related and other asset-backed risk, foreign (non-U.S.) investment risk, emerging markets risk, currency risk, issuer non-diversification risk, leveraging risk, management risk and short sale risk. A complete description of these risks is contained in the Portfolio's prospectus. The Portfolio may use derivative instruments for hedging purposes or as part of an investment strategy. Use of these instruments may involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk and the risk that the Portfolio may not be able to close out a position when it would be most advantageous to do so. Certain derivative transactions may have a leveraging effect on the Portfolio. For example, a small investment in a derivative instrument may have a significant impact on the Portfolio's exposure to interest rates, currency exchange rates or other investments. As a result, a relatively small price movement in a derivative instrument may cause an immediate and substantial loss or gain. The Portfolio may engage in such transactions regardless of whether the Portfolio owns the asset, instrument or components of the index underlying the derivative instrument. The Portfolio may invest a significant portion of its assets in these types of instruments. If it does, the Portfolio's investment exposure could far exceed the value of its portfolio securities and its investment performance could be primarily dependent upon securities it does not own. Investing in non-U.S. securities may entail risk due to non-U.S. economic and political developments; this risk may be increased when investing in emerging markets.

On the Portfolio Summary page in this Semiannual Report ("Shareholder Report"), the Average Annual Total Return table and Cumulative Returns chart measure performance assuming that all dividend and capital gain distributions were reinvested.

An investment in the Portfolio is not a deposit of a bank and is not guaranteed or insured by the Federal Deposit Insurance Corporation or any other government agency. It is possible to lose money on investments in the Portfolio.

PIMCO has adopted written proxy voting policies and procedures ("Proxy Policy") as required by Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended. The Proxy Policy has been adopted by the Trust as the policies and procedures that PIMCO will use when voting proxies on behalf of the Portfolio. A description of the policies and procedures that PIMCO uses to vote proxies relating to portfolio securities of the Portfolio, and information about how the Portfolio voted proxies relating to portfolio securities held during the most recent twelve-month period ended June 30, are available without charge, upon request, by calling the Trust at (800) 927-4648, on the Portfolio's website at http://pvit.pimco-funds.com, and on the Securities and Exchange Commission's ("SEC") website at http://www.sec.gov.

The Portfolio files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. A copy of the Trust's Form N-Q is 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 D.C. and is available without charge, upon request, by calling the Trust at (800) 927-4648 and on the Portfolio's website at http://pvit.pimco-funds.com. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

PIMCO Variable Insurance Trust is distributed by PIMCO Investments LLC, 1633 Broadway, New York, New York 10019.

The following disclosure provides important information regarding the Portfolio's Expense Example ("Example" or "Expense Example"), which appears in this Shareholder Report. Please refer to this information when reviewing the Expense Example for the Portfolio.

Expense Example

As a shareholder of the Portfolio, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees; distribution and/or service (12b-1) fees (Administrative Class only); and other Portfolio expenses. The 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 Expense Example does not reflect any fees or other expenses imposed by the Variable Contracts. If it did, the expenses reflected in the Expense Example would be higher. The Example is based on an investment of $1,000 invested at the beginning of the period and held for the entire period indicated, which is from January 1, 2012 to June 30, 2012.

Actual Expenses

The information in the table under the heading "Actual Performance" provides information about actual account values and actual expenses. You may use the information in these columns, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = $8.60), then multiply the result by the number in the row titled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

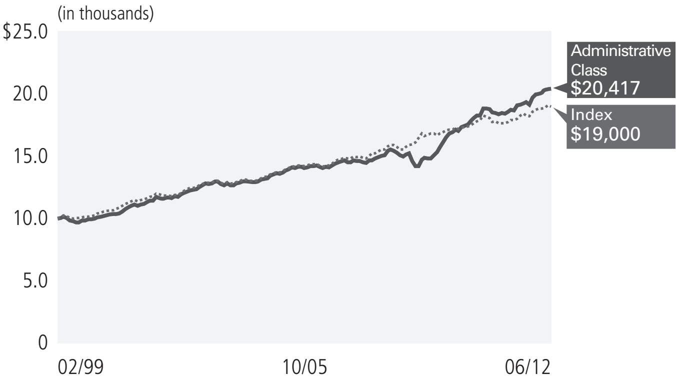
The information in the table under the heading "Hypothetical Performance (5% return before expenses)" provides information about hypothetical account values and hypothetical expenses based on the Portfolio's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Portfolio and other portfolios. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other portfolios.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs. Therefore, the information under the heading "Hypothetical Performance (5% return before expenses)" is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different portfolios. In addition, if these transactional costs were included, your costs would have been higher.

The expense ratio may vary period to period because of various factors, such as an increase in expenses not covered by the management fees (such as expenses of the independent trustees and their counsel, extraordinary expenses and interest expense).

PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

Cumulative Returns Through June 30, 2012



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Allocation Breakdown‡

United States	37.4%
United Kingdom	12.3%
France	10.9%
Italy	7.7%
Germany	7.1%
Short-Term Instruments	6.2%
Other	18.4%

‡ % of Total Investments as of 06/30/12

Average Annual Total Return for the period ended June 30, 2012

		6 Months*	1 Year	5 Years	10 Years	Class Inception (02/16/1999)
—	PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Administrative Class	3.65%	9.39%	7.16%	5.49%	5.47%
·····	JPMorgan GBI Global ex-US Index Hedged in USD±	2.27%	6.13%	5.10%	4.63%	4.93%**

All Portfolio returns are net of fees and expenses.

* Cumulative return.

** Average annual total return since 02/28/1999.

Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Current performance may be lower or higher than performance shown. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. The Portfolio's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in Variable Contracts, which will reduce returns. For performance current to the most recent month-end, visit http://pvit.pimco-funds.com. The Portfolio's total annual operating expense ratio as stated in the Portfolio's current prospectus, as supplemented to date, is 0.91% for Administrative Class shares.

± JPMorgan GBI Global ex-US Index Hedged in USD is an unmanaged market index representative of the total return performance in U.S. dollars of major non-U.S. bond markets. It is not possible to invest directly in an unmanaged index.

Expense Example	Actual Performance	Hypothetical Performance (5% return before expenses)
Beginning Account Value (01/01/12)	$1,000.00	$1,000.00
Ending Account Value (06/30/12)	$1,036.50	$1,020.24
Expenses Paid During Period*	$ 4.71	$ 4.67
Net Annualized Expense Ratio	0.93%	0.93%

** Expenses paid during the period are equal to the net annualized expense ratio for the class, multiplied by the average account value over the period, multiplied by 182/366 (to reflect the one-half year period). Overall fees and expenses of investing in the Portfolio will be higher because the example does not reflect variable contract fees and expenses.*

Please refer to the Important Information section for an explanation of the information presented in the above Expense Example.

Portfolio Insights

» The PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) seeks maximum total return, consistent with preservation of capital and prudent investment management, by investing under normal circumstances at least 80% of its assets in Fixed Income Instruments that are economically tied to foreign (non-U.S.) countries, representing at least three foreign countries, which may be represented by forwards or derivatives such as options, futures contracts or swap agreements. "Fixed Income Instruments" include bonds, debt securities and other similar instruments issued by various U.S. and non-U.S. public or private sector entities.

» Portfolios managed to U.S. dollar-hedged benchmarks are hedged to the U.S. dollar. On a total return basis, portfolios that were hedged to the U.S. dollar generally outperformed unhedged portfolios over the reporting period, as the U.S. dollar appreciated versus most major currencies.

» Positions in high-quality financial names, particularly in the U.S. and the U.K., contributed to performance as spreads on these securities narrowed over U.S. Treasuries and U.K. Gilts, respectively, during the reporting period.

» Positions in high-quality non-Agency mortgage-backed securities ("MBS"), commercial MBS, and asset-backed securities contributed to performance as spreads on these securities narrowed over U.S. Treasuries during the reporting period.

» Overweight positions in high coupon Agency MBS contributed to performance as these securities outperformed the broader market during the reporting period.

» Positions in European Agencies contributed to performance as spreads on these securities tightened over German bunds during the reporting period.

» An overweight to duration (or sensitivity to changes in market interest rates) in Mexico at the front-end of the yield curve contributed to performance as front-end government yields fell over the reporting period.

» An underweight to duration in Spain, Italy, and France early in the reporting period detracted from performance as sovereign spreads tightened over German bunds.

» An underweight to Japan duration detracted from performance as ten-year government yields fell over the reporting period.

Financial Highlights PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

Selected Per Share Data for the Year or Period Ended:	06/30/2012+	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007
Administrative Class						
Net asset value beginning of year or period	$ 10.33	$ 9.98	$ 9.64	$ 9.58	$ 10.12	$ 10.10
Net investment income [(a)]	0.12	0.23	0.21	0.37	0.35	0.35
Net realized/unrealized gain (loss)	0.26	0.43	0.60	1.10	(0.59)	0.01
Total income (loss) from investment operations	0.38	0.66	0.81	1.47	(0.24)	0.36
Dividends from net investment income	(0.13)	(0.21)	(0.19)	(0.32)	(0.30)	(0.34)
Distributions from net realized capital gains	0.00	(0.10)	(0.28)	(1.07)	0.00	0.00
Tax basis return of capital	0.00	0.00	0.00	(0.02)	0.00	0.00
Total distributions	(0.13)	(0.31)	(0.47)	(1.41)	(0.30)	(0.34)
Net asset value end of year or period	$ 10.58	$ 10.33	$ 9.98	$ 9.64	$ 9.58	$ 10.12
Total return	3.65%	6.76%	8.49%	15.60%	(2.40)%	3.62%
Net assets end of year or period (000s)	$ 73,022	$ 78,493	$ 79,591	$ 69,356	$ 76,215	$ 68,312
Ratio of expenses to average net assets	0.93%*	0.91%	0.90%	0.91%	0.91%	0.90%
Ratio of expenses to average net assets excluding interest expense	0.90%*	0.90%	0.90%	0.90%	0.90%	0.90%
Ratio of net investment income to average net assets	2.38%*	2.30%	2.06%	3.67%	3.56%	3.49%
Portfolio turnover rate	215%**	218%**	130%**	459%	655%	621%

\+ Unaudited
* Annualized
** The ratio excludes PIMCO Short-Term Floating NAV Portfolio.
(a) Per share amounts based on average number of shares outstanding during the year or period.

Statement of Assets and Liabilities PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Unaudited)

(Amounts in thousands, except per share amounts)	June 30, 2012
Assets:	
Investments, at value	$ 95,249
Investments in Affiliates, at value	610
Repurchase agreements, at value	369
Cash	8
Deposits with counterparty	466
Foreign currency, at value	159
Receivable for investments sold	24,593
Receivable for investments sold on a delayed-delivery basis	125
Receivable for cross-currency swap exchanges	7,657
Receivable for Portfolio shares sold	48
Interest and dividends receivable	773
Variation margin receivable on financial derivative instruments	52
OTC swap premiums paid	481
Unrealized appreciation on foreign currency contracts	613
Unrealized appreciation on OTC swap agreements	832
Other assets	18
	132,053
Liabilities:	
Payable for investments purchased	$ 37,447
Payable for sale-buyback financing transactions	9,681
Deposits from counterparty	1,560
Payable for cross-currency swap exchanges	7,619
Payable for Portfolio shares redeemed	309
Written options outstanding	201
Accrued investment advisory fees	16
Accrued supervisory and administrative fees	31
Accrued servicing fees	9
Variation margin payable on financial derivative instruments	6
OTC swap premiums received	765
Unrealized depreciation on foreign currency contracts	1,235
Unrealized depreciation on OTC swap agreements	132
	59,011
Net Assets	$ 73,042
Net Assets Consist of:	
Paid in capital	$ 69,629
(Overdistributed) net investment income	(29)
Accumulated undistributed net realized gain	4,576
Net unrealized (depreciation)	(1,134)
	$ 73,042
Net Assets:	
Institutional Class	$ 20
Administrative Class	73,022
Shares Issued and Outstanding:	
Institutional Class	2
Administrative Class	6,901
Net Asset Value and Redemption Price Per Share Outstanding:	
Institutional Class	$ 10.58
Administrative Class	10.58
Cost of Investments	$ 96,290
Cost of Investments in Affiliates	$ 610
Cost of Repurchase Agreements	$ 369
Cost of Foreign Currency Held	$ 158
Premiums Received on Written Options	$ 224

See Accompanying Notes

Statement of Operations PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Unaudited)

(Amounts in thousands)	Six Months Ended June 30, 2012
Investment Income:	
Interest	$ 1,206
Dividends	9
Dividends from Affiliate investments	4
Total Income	1,219
Expenses:	
Investment advisory fees	92
Supervisory and administrative fees	183
Servicing fees – Administrative Class	56
Interest expense	11
Total Expenses	342
Net Investment Income	877
Net Realized and Unrealized Gain (Loss):	
Net realized gain on investments	550
Net realized gain on Affiliate investments	3
Net realized gain on futures contracts	364
Net realized gain on written options	185
Net realized gain on swaps	24
Net realized gain on foreign currency transactions	1,389
Net change in unrealized appreciation on investments	1,152
Net change in unrealized (depreciation) on Affiliate investments	(1)
Net change in unrealized (depreciation) on futures contracts	(454)
Net change in unrealized (depreciation) on written options	(113)
Net change in unrealized appreciation on swaps	277
Net change in unrealized (depreciation) on translation of assets and liabilities denominated in foreign currencies	(1,577)
Net Gain	1,799
Net Increase in Net Assets Resulting from Operations	$ 2,676

Statements of Changes in Net Assets PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Amounts in thousands)	Six Months Ended June 30, 2012 (Unaudited)	Year Ended December 31, 2011
(Decrease) in Net Assets from:		
Operations:		
Net investment income	$ 877	$ 1,745
Net realized gain	2,512	2,522
Net realized gain on Affiliate investments	3	1
Net change in unrealized appreciation (depreciation)	(715)	551
Net change in unrealized appreciation (depreciation) on Affiliate investments	(1)	1
Net increase resulting from operations	2,676	4,820
Distributions to Shareholders:		
From net investment income		
Institutional Class	0+	0
Administrative Class	(885)	(1,605)
From net realized capital gains		
Administrative Class	0	(726)
Total Distributions	(885)	(2,331)
Portfolio Share Transactions:		
Net (decrease) resulting from Portfolio share transactions**	(7,261)	(3,586)
Total (Decrease) in Net Assets	(5,470)	(1,097)
Net Assets:		
Beginning of period	78,512	79,609
End of period*	$ 73,042	$ 78,512
*Including (overdistributed) net investment income of:	$ (29)	$ (21)

+ Amount is less than $500.
**See note 12 in the Notes to Financial Statements.

See Accompanying Notes

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
AUSTRALIA 2.4%			
CORPORATE BONDS & NOTES 1.8%			
Commonwealth Bank of Australia			
3.492% due 08/13/2014	$	500	$ 529
ING Bank Australia Ltd.			
4.170% due 06/24/2014	AUD	800	825
			1,354
MORTGAGE-BACKED SECURITIES 0.4%			
Medallion Trust			
0.597% due 05/25/2035	$	74	74
Puma Finance Ltd.			
3.990% due 08/22/2037	AUD	89	87
Torrens Trust			
4.007% due 10/19/2038		131	130
			291
SOVEREIGN ISSUES 0.2%			
New South Wales Treasury Corp. CPI Linked Bond			
2.750% due 11/20/2025		100	129
Total Australia (Cost $1,557)			**1,774**
BELGIUM 1.6%			
SOVEREIGN ISSUES 1.6%			
Belgium Government International Bond			
3.500% due 06/28/2017	EUR	100	134
4.000% due 03/28/2013		800	1,039
Total Belgium (Cost $1,159)			**1,173**
CANADA 1.3%			
SOVEREIGN ISSUES 1.3%			
Province of British Columbia			
4.300% due 06/18/2042	CAD	100	117
Province of Ontario			
3.150% due 06/02/2022		300	304
6.200% due 06/02/2031		100	137
Province of Quebec			
3.500% due 12/01/2022		200	207
4.250% due 12/01/2021		200	220
Total Canada (Cost $958)			**985**
CAYMAN ISLANDS 0.6%			
CORPORATE BONDS & NOTES 0.6%			
Transocean, Inc.			
4.950% due 11/15/2015	$	400	431
Total Cayman Islands (Cost $400)			**431**
DENMARK 0.0%			
CORPORATE BONDS & NOTES 0.0%			
Nykredit Realkredit A/S			
6.000% due 10/01/2029	DKK	25	5
Total Denmark (Cost $3)			**5**
FRANCE 14.5%			
CORPORATE BONDS & NOTES 5.9%			
BNP Paribas Home Loan SFH			
4.750% due 05/28/2013	EUR	300	393
BPCE S.A.			
2.216% due 02/07/2014	$	400	396
Cie de Financement Foncier S.A.			
2.250% due 01/25/2013	EUR	200	$ 255
Credit Agricole Home Loan SFH			
1.216% due 07/21/2014	$	400	391
Dexia Credit Local S.A.			
0.946% due 04/29/2014		400	376
2.750% due 01/10/2014		1,800	1,781
2.750% due 04/29/2014		700	687
			4,279
SOVEREIGN ISSUES 8.6%			
Caisse d'Amortissement de la Dette Sociale			
3.500% due 07/01/2014		300	313
France Government Bond			
3.000% due 04/25/2022	EUR	600	781
3.500% due 04/25/2026		100	131
4.000% due 10/25/2013		600	796
4.000% due 10/25/2038		100	136
4.250% due 04/25/2019		1,000	1,441
4.500% due 04/25/2041		400	592
4.750% due 04/25/2035		300	454
5.500% due 04/25/2029		200	322
France Treasury Notes			
1.750% due 02/25/2017		1,000	1,283
			6,249
Total France (Cost $10,687)			**10,528**
GERMANY 9.3%			
CORPORATE BONDS & NOTES 7.0%			
FMS Wertmanagement AoR			
0.741% due 01/20/2014	EUR	500	635
2.375% due 12/15/2014		300	395
3.375% due 06/17/2021		400	560
IKB Deutsche Industriebank AG			
2.125% due 09/10/2012		800	1,015
KFW			
0.625% due 05/29/2015		600	761
2.000% due 11/30/2015		600	789
2.750% due 09/07/2015	GBP	300	495
6.250% due 05/19/2021	AUD	400	464
			5,114
SOVEREIGN ISSUES 2.3%			
Republic of Germany			
5.500% due 01/04/2031	EUR	900	1,688
Total Germany (Cost $6,901)			**6,802**
IRELAND 1.3%			
CORPORATE BONDS & NOTES 1.3%			
Depfa ACS Bank			
3.875% due 07/15/2013	EUR	300	385
German Postal Pensions Securitisation PLC			
3.375% due 01/18/2016		400	544
Total Ireland (Cost $967)			**929**
ITALY 10.1%			
CORPORATE BONDS & NOTES 0.5%			
Intesa Sanpaolo SpA			
6.500% due 02/24/2021	$	400	351
MORTGAGE-BACKED SECURITIES 0.5%			
Intesa Sec SpA			
0.860% due 10/30/2033	EUR	300	349
SOVEREIGN ISSUES 9.1%			
Italy Buoni Poliennali Del Tesoro			
3.000% due 04/15/2015	EUR	600	$ 736
3.000% due 11/01/2015		100	121
3.750% due 08/01/2015		500	625
3.750% due 03/01/2021		100	113
4.250% due 02/01/2019		300	359
4.500% due 02/01/2018		100	123
4.500% due 08/01/2018		100	122
4.500% due 03/01/2019		100	121
4.750% due 09/15/2016		500	633
4.750% due 05/01/2017		100	125
5.000% due 03/01/2022		500	605
5.000% due 08/01/2039		200	215
5.000% due 09/01/2040		300	320
5.250% due 08/01/2017		600	768
5.500% due 09/01/2022		900	1,121
5.750% due 02/01/2033		200	239
Republic of Italy Government Bond			
3.125% due 01/26/2015	$	100	97
5.250% due 09/20/2016		100	100
6.000% due 08/04/2028	GBP	100	135
			6,678
Total Italy (Cost $7,720)			**7,378**
JERSEY, CHANNEL ISLANDS 0.3%			
CORPORATE BONDS & NOTES 0.3%			
HBOS Capital Funding LP			
6.461% due 11/30/2018 (d)	GBP	200	196
Total Jersey, Channel Islands (Cost $271)			**196**
MEXICO 1.9%			
SOVEREIGN ISSUES 1.9%			
Mexico Government International Bond			
6.250% due 06/16/2016	MXN	6,200	490
6.500% due 06/10/2021		7,400	603
10.000% due 12/05/2024		2,800	294
Total Mexico (Cost $1,303)			**1,387**
NETHERLANDS 4.5%			
CORPORATE BONDS & NOTES 1.9%			
ABN Amro Bank NV			
3.250% due 01/18/2013	EUR	200	257
Fortis Bank Nederland NV			
3.375% due 05/19/2014		500	666
Gazprom OAO Via White Nights Finance BV			
10.500% due 03/08/2014	$	300	337
LeasePlan Corp. NV			
3.250% due 05/22/2014	EUR	100	133
			1,393
SOVEREIGN ISSUES 2.6%			
Netherlands Government Bond			
4.000% due 07/15/2019		1,100	1,606
4.500% due 07/15/2017		200	293
			1,899
Total Netherlands (Cost $3,331)			**3,292**
NEW ZEALAND 4.1%			
SOVEREIGN ISSUES 4.1%			
New Zealand Government Bond			
5.000% due 03/15/2019	NZD	1,400	1,245

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
5.500% due 04/15/2023	NZD	500	$ 472
6.000% due 05/15/2021		1,300	1,253
Total New Zealand (Cost $2,767)			**2,970**
NORWAY 1.4%			
CORPORATE BONDS & NOTES 1.4%			
DNB Bank ASA			
3.200% due 04/03/2017	$	600	608
DNB Boligkreditt A/S			
2.375% due 07/20/2016	EUR	300	391
Total Norway (Cost $986)			**999**
SOUTH KOREA 0.2%			
CORPORATE BONDS & NOTES 0.2%			
Export-Import Bank of Korea			
5.750% due 05/22/2013	EUR	100	131
Total South Korea (Cost $154)			**131**
SPAIN 1.3%			
SOVEREIGN ISSUES 1.3%			
Fondo de Reestructuracion Ordenada Bancaria			
4.400% due 10/21/2013	EUR	100	126
Instituto de Credito Oficial			
2.405% due 03/25/2014		100	122
6.125% due 02/27/2014	AUD	200	193
Spain Government International Bond			
3.625% due 06/17/2013	$	100	98
4.200% due 01/31/2037	EUR	100	87
4.250% due 10/31/2016		300	361
Total Spain (Cost $1,065)			**987**
SUPRANATIONAL 3.4%			
CORPORATE BONDS & NOTES 3.4%			
European Union			
2.500% due 12/04/2015	EUR	300	401
2.750% due 06/03/2016		500	674
3.250% due 04/04/2018		300	415
3.500% due 06/04/2021		200	278
Inter-American Development Bank			
6.000% due 02/26/2021	AUD	600	700
Total Supranational (Cost $2,490)			**2,468**
UNITED KINGDOM 16.2%			
CORPORATE BONDS & NOTES 4.8%			
Abbey National Treasury Services PLC			
3.125% due 06/30/2015	EUR	600	784
Bank of Scotland PLC			
4.375% due 07/13/2016		100	139
Barclays Bank PLC			
3.625% due 04/13/2016		300	408
HBOS PLC			
6.750% due 05/21/2018	$	200	189
Lloyds TSB Bank PLC			
2.816% due 01/24/2014		200	201
12.000% due 12/16/2024 (d)		200	210
Nationwide Building Society			
4.625% due 09/13/2012	EUR	100	127
5.500% due 07/18/2012	$	800	801
Royal Bank of Scotland Group PLC			
2.750% due 08/18/2014	EUR	500	644
			3,503

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
MORTGAGE-BACKED SECURITIES 3.4%			
Arran Residential Mortgages Funding PLC			
1.889% due 05/16/2047	EUR	77	$ 98
Eurosail PLC			
1.151% due 06/10/2044	GBP	78	107
Fosse Master Issuer PLC			
2.873% due 10/18/2054		200	313
Granite Master Issuer PLC			
0.414% due 12/20/2054	$	100	87
Holmes Master Issuer PLC			
2.157% due 10/15/2054	EUR	400	509
Mansard Mortgages PLC			
1.601% due 12/15/2049	GBP	370	491
Newgate Funding PLC			
1.951% due 12/15/2050		400	431
Unite USAF PLC			
1.095% due 03/31/2017		300	447
			2,483
SOVEREIGN ISSUES 8.0%			
United Kingdom Gilt			
4.250% due 06/07/2032		300	581
4.250% due 03/07/2036		100	193
4.250% due 09/07/2039		600	1,158
4.250% due 12/07/2040		300	579
4.500% due 09/07/2034		100	200
4.500% due 12/07/2042		200	404
4.750% due 12/07/2030		900	1,853
4.750% due 12/07/2038		200	417
6.000% due 12/07/2028		200	468
			5,853
Total United Kingdom (Cost $11,801)			**11,839**
UNITED STATES 49.3%			
ASSET-BACKED SECURITIES 1.7%			
Amortizing Residential Collateral Trust			
0.825% due 07/25/2032	$	1	1
0.945% due 10/25/2031		2	1
Amresco Residential Securities Mortgage Loan Trust			
1.185% due 06/25/2029		1	1
Bear Stearns Asset-Backed Securities Trust			
0.315% due 12/25/2036		36	34
Credit Suisse First Boston Mortgage Securities Corp.			
0.865% due 01/25/2032		2	1
First Alliance Mortgage Loan Trust			
0.474% due 12/20/2027		1	1
Indymac Residential Asset-Backed Trust			
0.695% due 08/25/2035		200	159
Long Beach Mortgage Loan Trust			
0.805% due 10/25/2034		12	10
Residential Asset Securities Corp.			
0.745% due 07/25/2032 ^		3	2
SACO, Inc.			
0.365% due 05/25/2036		1	1
SLM Student Loan Trust			
0.966% due 10/25/2017		354	355
1.966% due 04/25/2023		644	666
Structured Asset Securities Corp.			
0.825% due 01/25/2033		3	2
			1,234
BANK LOAN OBLIGATIONS 0.5%			
Springleaf Finance Corp.			
5.500% due 05/10/2017		400	378

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
CORPORATE BONDS & NOTES 9.4%			
Ally Financial, Inc.			
3.868% due 06/20/2014	$	200	$ 199
American International Group, Inc.			
8.000% due 05/22/2068	EUR	400	491
AutoZone, Inc.			
5.875% due 10/15/2012	$	1,000	1,014
BA Covered Bond Issuer			
4.250% due 04/05/2017	EUR	200	269
Bear Stearns Cos. LLC			
6.400% due 10/02/2017	$	100	116
CIT Group, Inc.			
5.250% due 04/01/2014		300	312
Citigroup, Inc.			
0.738% due 06/09/2016		200	173
0.746% due 11/05/2014		500	478
1.919% due 01/13/2014		100	100
Computer Sciences Corp.			
5.000% due 02/15/2013		369	379
International Lease Finance Corp.			
6.750% due 09/01/2016		200	216
Jones Group, Inc.			
5.125% due 11/15/2014		200	205
Merrill Lynch & Co., Inc.			
0.980% due 01/31/2014	EUR	200	244
1.187% due 07/22/2014		400	482
6.750% due 05/21/2013		100	131
6.875% due 04/25/2018	$	200	224
Morgan Stanley			
0.975% due 11/29/2013	EUR	340	415
Universal Health Services, Inc.			
7.125% due 06/30/2016	$	1,000	1,120
WM Covered Bond Program			
4.375% due 09/16/2014	EUR	200	266
			6,834
MORTGAGE-BACKED SECURITIES 6.7%			
American Home Mortgage Investment Trust			
2.237% due 09/25/2045	$	115	92
Banc of America Mortgage Securities, Inc.			
3.000% due 02/25/2036		106	78
BCAP LLC Trust			
0.415% due 01/25/2037 ^		132	69
Bear Stearns Adjustable Rate Mortgage Trust			
2.570% due 03/25/2035		110	107
2.738% due 08/25/2033		7	7
3.078% due 03/25/2035		13	13
5.145% due 08/25/2035		85	86
Bear Stearns Alt-A Trust			
0.405% due 02/25/2034		112	92
2.715% due 11/25/2035 ^		66	41
2.752% due 11/25/2036		153	85
2.879% due 09/25/2035		71	49
2.955% due 03/25/2036 ^		143	72
5.543% due 08/25/2036 ^		91	53
Bear Stearns Structured Products, Inc.			
2.829% due 12/26/2046		58	32
Citigroup Mortgage Loan Trust, Inc.			
2.230% due 09/25/2035		21	20
2.340% due 09/25/2035		35	31
Citigroup/Deutsche Bank Commercial Mortgage Trust			
5.322% due 12/11/2049		300	335
Countrywide Alternative Loan Trust			
0.454% due 03/20/2046		134	67
0.525% due 02/25/2037		113	61
0.574% due 11/20/2035		166	96

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
1.147% due 12/25/2035	$ 174	$ 99
1.647% due 11/25/2035	31	18
5.250% due 06/25/2035	25	20
6.000% due 04/25/2037 ^	41	25
Countrywide Home Loan Mortgage Pass-Through Trust		
0.475% due 05/25/2035	58	38
0.565% due 03/25/2035	120	63
0.575% due 02/25/2035	15	10
2.620% due 11/25/2034	21	17
2.902% due 08/25/2034	61	45
Credit Suisse First Boston Mortgage Securities Corp.		
6.500% due 04/25/2033	2	2
Credit Suisse Mortgage Capital Certificates		
5.863% due 02/25/2037	263	146
DBUBS Mortgage Trust		
0.319% due 11/10/2046 (a)	400	7
1.567% due 11/10/2046 (a)	982	53
Greenpoint Mortgage Funding Trust		
0.325% due 01/25/2047 ^	1	1
GSR Mortgage Loan Trust		
2.659% due 09/25/2035	300	243
2.705% due 01/25/2036	179	141
Harborview Mortgage Loan Trust		
0.463% due 05/19/2035	56	35
3.026% due 05/19/2033	11	11
Indymac Index Mortgage Loan Trust		
0.485% due 07/25/2035	47	31
JPMorgan Alternative Loan Trust		
5.550% due 10/25/2036	12	11
JPMorgan Mortgage Trust		
3.164% due 07/27/2037	223	168
5.216% due 02/25/2036	105	78
Mellon Residential Funding Corp.		
0.682% due 12/15/2030	18	17
Merrill Lynch Floating Trust		
0.779% due 07/09/2021	163	160
MLCC Mortgage Investors, Inc.		
1.986% due 10/25/2035	31	29
Morgan Stanley Mortgage Loan Trust		
2.455% due 06/25/2036	119	99
Residential Accredit Loans, Inc.		
0.395% due 02/25/2047	58	26
0.425% due 06/25/2046	149	51
0.455% due 04/25/2046	126	49
Structured Adjustable Rate Mortgage Loan Trust		
2.818% due 04/25/2034	18	16
Structured Asset Mortgage Investments, Inc.		
0.455% due 05/25/2046	23	11
0.465% due 05/25/2036	166	79
0.465% due 09/25/2047	200	80
0.475% due 05/25/2045	45	27
0.823% due 07/19/2034	7	7
0.903% due 09/19/2032	7	6
0.943% due 03/19/2034	13	11
1.647% due 08/25/2047	75	38
TBW Mortgage-Backed Pass-Through Certificates		
5.970% due 09/25/2036	189	41
Thornburg Mortgage Securities Trust		
0.465% due 06/25/2047	169	169
Wachovia Bank Commercial Mortgage Trust		
0.332% due 09/15/2021	103	100
Wachovia Mortgage Loan Trust LLC		
2.699% due 10/20/2035	300	239
WaMu Mortgage Pass-Through Certificates		
0.475% due 04/25/2045	16	13
0.555% due 01/25/2045	14	12
1.127% due 06/25/2046	81	60

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
1.147% due 02/25/2046	$ 178	$ 138
2.120% due 03/25/2033	27	26
2.390% due 02/27/2034	13	13
2.483% due 03/25/2035	166	153
Washington Mutual Alternative Mortgage Pass-Through Certificates		
1.092% due 07/25/2046 ^	55	21
Wells Fargo Mortgage-Backed Securities Trust		
2.622% due 03/25/2036	126	112
2.628% due 06/25/2035	76	77
2.629% due 07/25/2036	149	111
2.636% due 04/25/2036	23	22
2.668% due 03/25/2036	201	171
		4,932
MUNICIPAL BONDS & NOTES 1.4%		
California State General Obligation Bonds, (BABs), Series 2009		
7.300% due 10/01/2039	100	124
California State General Obligation Bonds, (BABs), Series 2010		
7.600% due 11/01/2040	100	130
Los Angeles County, California Public Works Financing Authority Revenue Bonds, (BABs), Series 2010		
7.488% due 08/01/2033	200	246
New Jersey State Turnpike Authority Revenue Bonds, (BABs), Series 2010		
7.102% due 01/01/2041	200	282
New York City, New York Municipal Water Finance Authority Revenue Bonds, (BABs), Series 2010		
5.790% due 06/15/2041	100	112
Pasadena Public Financing Authority, California Revenue Bonds, (BABs), Series 2010		
7.148% due 03/01/2043	100	133
		1,027
	SHARES	
PREFERRED SECURITIES 0.7%		
DG Funding Trust		
2.829% due 07/30/2012 (d)	65	485
SLM Corp. CPI Linked Security		
3.754% due 01/16/2018	900	20
		505
	PRINCIPAL AMOUNT (000S)	
U.S. GOVERNMENT AGENCIES 27.3%		
Fannie Mae		
0.365% due 03/25/2034	$ 15	15
0.395% due 08/25/2034	9	9
0.595% due 09/25/2042	35	35
0.675% due 11/25/2040	306	306
0.695% due 11/25/2040	327	327
1.347% due 10/01/2044	37	38
2.247% due 12/01/2034	13	14
2.485% due 11/01/2034	100	106
2.556% due 05/25/2035	34	36
3.500% due 11/01/2021 - 08/01/2042	6,099	6,399
4.000% due 08/01/2042	5,000	5,315
4.500% due 08/01/2042	3,500	3,753
5.480% due 07/01/2018	200	216
6.000% due 07/25/2044	24	27
Freddie Mac		
0.742% due 12/15/2032	38	38
0.842% due 12/15/2037	159	160

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
1.315% due 10/25/2044	$ 97	$ 97
2.346% due 02/01/2029	10	11
2.625% due 03/01/2035	38	40
2.850% due 04/01/2035	200	214
Ginnie Mae		
2.375% due 04/20/2028 - 06/20/2030	7	7
NCUA Guaranteed Notes		
0.710% due 11/05/2020	1,863	1,864
0.800% due 12/08/2020	440	441
Tennessee Valley Authority		
6.250% due 12/15/2017	400	509
		19,977
U.S. TREASURY OBLIGATIONS 1.6%		
U.S. Treasury Bonds		
3.000% due 05/15/2042	500	525
3.125% due 11/15/2041	200	215
3.750% due 08/15/2041	200	242
U.S. Treasury Inflation Protected Securities (c)		
2.375% due 01/15/2025 (h)	122	161
		1,143
Total United States (Cost $36,745)		**36,030**
SHORT-TERM INSTRUMENTS 8.0%		
CERTIFICATES OF DEPOSIT 0.5%		
Itau Unibanco Holding S.A.		
0.000% due 11/13/2012	$ 400	400
REPURCHASE AGREEMENTS 0.5%		
State Street Bank and Trust Co.		
0.010% due 07/02/2012	369	369
(Dated 06/29/2012. Collateralized by U.S. Treasury Notes 2.000% due 11/15/2021 valued at $379. Repurchase proceeds are $369.)		
MEXICO TREASURY BILLS 4.9%		
4.568% due 07/12/2012 - 10/04/2012 (b)	MXN 48,500	3,616
U.S. TREASURY BILLS 1.3%		
0.158% due 10/25/2012 - 05/02/2013 (b)(g)	$ 930	929
	SHARES	
PIMCO SHORT-TERM FLOATING NAV PORTFOLIO (e) 0.8%		
PIMCO Short-Term Floating NAV Portfolio	60,900	610
Total Short-Term Instruments (Cost $6,003)		**5,924**
PURCHASED OPTIONS (k) 0.0%		
(Cost $1)		**0**
Total Investments 131.7% (Cost $97,269)		**$ 96,228**
Written Options (l) (0.3%) (Premiums $224)		**(201)**
Other Assets and Liabilities (Net) (31.4%)		**(22,985)**
Net Assets 100.0%		**$ 73,042**

Notes to Schedule of Investments (amounts in thousands*, except number of contracts):

* A zero balance may reflect actual amounts rounding to less than one thousand.

^ Security is in default.

(a) Interest only security.

(b) Coupon represents a weighted average yield to maturity.

(c) Principal amount of security is adjusted for inflation.

(d) Perpetual maturity, date shown represents next contractual call date.

(e) Affiliated to the Portfolio.

(f) The average amount of borrowings while outstanding during the period ended June 30, 2012 was $5,847 at a weighted average interest rate of 0.464%.

(g) Securities with an aggregate market value of $929 have been pledged as collateral as of June 30, 2012 for OTC swap agreements, swaptions, foreign currency options and foreign currency contracts as governed by International Swaps and Derivatives Association, Inc. Master Agreements.

(h) Securities with an aggregate market value of $105 and cash of $134 have been pledged as collateral for the following open futures contracts on June 30, 2012:

Description	Type	Expiration Month	# of Contracts	Unrealized Appreciation/ (Depreciation)
Australia Government 3-Year Bond September Futures	Short	09/2012	38	$ 9
Call Options Strike @ EUR 144.000 on Euro-Bund 10-Year Bond August Futures	Short	08/2012	4	1
Canada Government 10-Year Bond September Futures	Short	09/2012	5	(8)
Euro-Bobl September Futures	Long	09/2012	15	(9)
Euro-BTP Italian Government Bond September Futures	Long	09/2012	1	3
Euro-Bund 10-Year Bond September Futures	Long	09/2012	21	(18)
Japan Government 10-Year Bond September Futures	Long	09/2012	5	17
Put Options Strike @ EUR 120.000 on Euro-Bund 10-Year Bond September Futures	Long	09/2012	7	0
Put Options Strike @ EUR 124.000 on Euro-Bund 10-Year Bond September Futures	Long	09/2012	18	0
United Kingdom Government 10-Year Gilt September Futures	Long	09/2012	2	1
				$ (4)

(i) Centrally cleared swap agreements outstanding on June 30, 2012:

Cash of $332 has been pledged as collateral for the following open centrally cleared swaps as of June 30, 2012.

Interest Rate Swaps

Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Market Value	Unrealized Appreciation/ (Depreciation)
Receive	3-Month USD-LIBOR	1.250%	06/20/2016	$ 900	$ (17)	$ (7)
Receive	3-Month USD-LIBOR	2.250%	06/20/2022	8,700	(394)	(329)
Pay	6-Month JPY-LIBOR	1.000%	09/19/2022	JPY 220,000	31	15
					$ (380)	$ (321)

(j) OTC swap agreements outstanding on June 30, 2012:

Credit Default Swaps on Corporate Issues - Buy Protection (1)

Reference Entity	Counterparty	Fixed Deal (Pay) Rate	Maturity Date	Implied Credit Spread at June 30, 2012 (3)	Notional Amount (4)	Market Value	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)
AutoZone, Inc.	BOA	(0.620%)	12/20/2012	0.166%	$ 1,000	$ (2)	$ 0	$ (2)
Computer Sciences Corp.	BOA	(0.570%)	03/20/2013	1.212%	369	2	0	2
Jones Group, Inc.	BOA	(5.000%)	12/20/2014	3.046%	200	(10)	(13)	3
Marsh & McLennan Cos., Inc.	BRC	(1.160%)	09/20/2014	0.361%	200	(4)	0	(4)
Universal Health Services, Inc.	BOA	(1.250%)	06/20/2016	1.795%	1,000	20	0	20
Viacom, Inc.	BOA	(1.110%)	12/20/2017	0.985%	200	(1)	0	(1)
Vivendi S.A.	BPS	(1.780%)	06/20/2013	0.826%	100	(1)	0	(1)
						$ 4	$ (13)	$ 17

Credit Default Swaps on Corporate, Sovereign, U.S. Municipal and U.S. Treasury Obligation Issues - Sell Protection (2)

Reference Entity	Counterparty	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2012 (3)	Notional Amount (4)	Market Value	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)
Ally Financial, Inc.	BOA	5.000%	12/20/2012	1.586%	$ 100	$ 2	$ 2	$ 0
Australia Government Bond	BOA	1.000%	06/20/2015	0.301%	100	2	2	0
Australia Government Bond	CBK	1.000%	12/20/2016	0.573%	300	6	1	5
Australia Government Bond	DUB	1.000%	03/20/2016	0.430%	200	4	4	0
Australia Government Bond	DUB	1.000%	09/20/2016	0.508%	300	7	5	2
Australia Government Bond	DUB	1.000%	12/20/2016	0.573%	200	3	0	3
Australia Government Bond	GST	1.000%	06/20/2016	0.472%	100	2	2	0

Credit Default Swaps on Corporate, Sovereign, U.S. Municipal and U.S. Treasury Obligation Issues - Sell Protection [(2)]

Reference Entity	Counterparty	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2012 [(3)]	Notional Amount [(4)]	Market Value	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)
Australia Government Bond	GST	1.000%	12/20/2016	0.573%	$ 100	$ 2	$ 0	$ 2
Australia Government Bond	JPM	1.000%	12/20/2016	0.573%	200	4	0	4
Australia Government Bond	MYC	1.000%	06/20/2016	0.472%	100	2	2	0
Australia Government Bond	RYL	1.000%	03/20/2016	0.430%	400	9	9	0
Australia Government Bond	UAG	1.000%	09/20/2016	0.508%	400	9	7	2
Australia Government Bond	UAG	1.000%	12/20/2016	0.573%	100	1	(1)	2
BP Capital Markets America, Inc.	BRC	1.000%	12/20/2015	0.946%	400	1	(7)	8
California State General Obligation Bonds, Series 2003	CBK	2.760%	03/20/2021	2.110%	200	9	0	9
California State General Obligation Bonds, Series 2003	MYC	1.350%	06/20/2016	1.463%	200	(1)	0	(1)
California State General Obligation Bonds, Series 2003	MYC	2.950%	12/20/2020	2.098%	400	23	0	23
California State General Obligation Bonds, Series 2003	MYC	2.150%	03/20/2021	2.110%	100	0	0	0
China Government International Bond	DUB	1.000%	12/20/2015	0.812%	500	3	11	(8)
China Government International Bond	DUB	1.000%	03/20/2016	0.866%	100	1	1	0
China Government International Bond	DUB	1.000%	09/20/2016	0.955%	200	0	0	0
Connecticut State General Obligation Notes, Series 2007	MYC	1.630%	03/20/2021	1.650%	100	0	0	0
France Government Bond	CBK	0.250%	06/20/2017	1.817%	400	(30)	(34)	4
France Government Bond	GST	0.250%	06/20/2017	1.817%	100	(7)	(8)	1
France Government Bond	HUS	0.250%	06/20/2017	1.817%	100	(8)	(9)	1
Illinois State General Obligation Bonds, Series 2006	CBK	2.900%	03/20/2021	2.396%	100	3	0	3
Japan Government International Bond	UAG	1.000%	03/20/2016	0.625%	400	6	(3)	9
Netherlands Government Bond	BOA	0.250%	06/20/2017	1.065%	400	(16)	(18)	2
Netherlands Government Bond	UAG	0.250%	06/20/2017	1.065%	100	(4)	(5)	1
Pennsylvania State General Obligation Bonds, Series 2005	MYC	1.400%	03/20/2021	1.424%	200	0	0	0
Republic of Germany	BOA	0.250%	12/20/2016	0.850%	100	(2)	(4)	2
Republic of Germany	BRC	0.250%	12/20/2016	0.850%	100	(3)	(5)	2
Republic of Germany	CBK	0.250%	12/20/2016	0.850%	200	(5)	(8)	3
Republic of Germany	GST	0.250%	12/20/2016	0.850%	200	(5)	(9)	4
Republic of Germany	MYC	0.250%	12/20/2016	0.850%	700	(18)	(29)	11
Republic of Italy Government Bond	CBK	1.000%	06/20/2017	4.756%	100	(16)	(15)	(1)
Republic of Italy Government Bond	DUB	1.000%	06/20/2017	4.756%	200	(31)	(31)	0
Republic of Italy Government Bond	GST	1.000%	06/20/2017	4.756%	100	(16)	(17)	1
Spain Government International Bond	BRC	1.000%	06/20/2017	5.180%	2,400	(406)	(405)	(1)
Spain Government International Bond	GST	1.000%	06/20/2017	5.180%	500	(84)	(79)	(5)
U.S. Treasury Notes	RYL	0.250%	06/20/2016	0.365%	EUR 200	(1)	(3)	2
U.S. Treasury Notes	SOG	0.250%	03/20/2016	0.343%	300	(1)	(5)	4
U.S. Treasury Notes	UAG	0.250%	06/20/2016	0.365%	200	0	(3)	3
United Kingdom Gilt	CBK	1.000%	06/20/2015	0.301%	$ 100	3	1	2
United Kingdom Gilt	CBK	1.000%	06/20/2016	0.463%	300	6	4	2
United Kingdom Gilt	DUB	1.000%	06/20/2015	0.301%	1,600	34	14	20
United Kingdom Gilt	DUB	1.000%	12/20/2015	0.373%	600	13	13	0
						$ (499)	$ (620)	$ 121

Credit Default Swaps on Credit Indices - Sell Protection [(2)]

Index/Tranches	Counterparty	Fixed Deal Receive Rate	Maturity Date	Notional Amount [(4)]	Market Value [(5)]	Premiums (Received)	Unrealized Appreciation/ (Depreciation)
MCDX-15 5-Year Index	DUB	1.000%	12/20/2015	$ 500	$ (7)	$ (18)	$ 11
MCDX-15 5-Year Index	GST	1.000%	12/20/2015	200	(2)	(5)	3
MCDX-15 5-Year Index	MYC	1.000%	12/20/2015	100	(1)	(2)	1
MCDX-15 10-Year Index	CBK	1.000%	12/20/2020	300	(18)	(17)	(1)
MCDX-16 5-Year Index	GST	1.000%	06/20/2016	200	(4)	(4)	0
					$ (32)	$ (46)	$ 14

(1) If the Portfolio is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation or underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

(2) If the Portfolio is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

(3) Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate, sovereign, U.S. municipal or U.S. Treasury obligation issues as of period end serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

(4) The maximum potential amount the Portfolio could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

(5) The prices and resulting values for credit default swap agreements on credit indices serve as an indicator of the current status of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement be closed/sold as of the period end. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

Cross-Currency Swaps

Receive	Pay	Maturity Date (6)	Counterparty	Notional Amount of Currency Received	Notional Amount of Currency Delivered	Market Value	Premiums Paid/ (Received)	Unrealized Appreciation/ (Depreciation)
Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	Floating rate equal to 3-Month JPY-LIBOR less 0.353% based on the notional amount of currency received	03/15/2013	JPM	$ 1,870	JPY 155,210	$ (72)	$ 1	$ (73)
Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	Floating rate equal to 3-Month JPY-LIBOR less 0.785% based on the notional amount of currency received	05/15/2014	BOA	1,261	100,000	12	1	11
Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	Floating rate equal to 3-Month JPY-LIBOR less 0.755% based on the notional amount of currency received	05/15/2014	BPS	700	56,000	0	(4)	4
Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	Floating rate equal to 3-Month JPY-LIBOR less 0.790% based on the notional amount of currency received	05/15/2014	BPS	1,300	100,000	51	38	13
Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	Floating rate equal to 3-Month JPY-LIBOR less 0.783% based on the notional amount of currency received	05/15/2014	DUB	1,259	100,000	10	0	10
Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	Floating rate equal to 3-Month JPY-LIBOR less 0.720% based on the notional amount of currency received	06/23/2014	BPS	1,267	100,000	17	2	15
						$ 18	$ 38	$ (20)

(6) At the maturity date, the notional amount of the currency received will be exchanged back for the notional amount of the currency delivered.

Interest Rate Swaps

Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Counterparty	Notional Amount	Market Value	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)
Pay	6-Month AUD-BBR-BBSW	5.000%	06/15/2022	DUB	AUD 200	$ 18	$ (1)	$ 19
Pay	6-Month JPY-LIBOR	1.500%	12/21/2021	FBF	JPY 550,000	462	150	312
Pay	6-Month JPY-LIBOR	1.500%	12/21/2021	RYL	150,000	126	41	85
Pay	6-Month JPY-LIBOR	1.000%	09/19/2022	UAG	170,000	26	12	14
Pay	6-Month JPY-LIBOR	2.000%	12/21/2041	BPS	100,000	92	59	33
Pay	6-Month JPY-LIBOR	2.000%	12/21/2041	FBF	100,000	91	125	(34)
Pay	28-Day MXN-TIIE	6.590%	12/08/2015	HUS	MXN 3,100	12	1	11
Pay	28-Day MXN-TIIE	6.590%	12/08/2015	MYC	5,300	20	(6)	26
Pay	28-Day MXN-TIIE	5.800%	06/08/2016	HUS	600	1	0	1
Pay	28-Day MXN-TIIE	6.750%	06/08/2016	BRC	1,700	8	1	7
Pay	28-Day MXN-TIIE	6.750%	06/08/2016	HUS	1,400	7	1	6
Pay	28-Day MXN-TIIE	6.750%	06/08/2016	MYC	19,700	91	15	76
Pay	28-Day MXN-TIIE	5.500%	09/13/2017	BRC	3,300	2	(1)	3
Pay	28-Day MXN-TIIE	5.500%	09/13/2017	HUS	500	0	0	0
Pay	28-Day MXN-TIIE	5.500%	09/13/2017	MYC	9,100	7	(2)	9
						$ 963	$ 395	$ 568

(k) Purchased options outstanding on June 30, 2012:

Options on Securities

Description	Counterparty	Strike Price	Expiration Date	Notional Amount	Cost	Market Value
Put - OTC Fannie Mae 3.500% due 08/01/2042	BRC	$ 94.063	08/06/2012	$ 3,000	$ 1	$ 0
Put - OTC Fannie Mae 3.500% due 09/01/2042	RYM	93.500	09/06/2012	1,000	0	0
Put - OTC Fannie Mae 4.000% due 08/01/2042	BRC	96.000	08/06/2012	2,000	0	0
Put - OTC Fannie Mae 4.000% due 09/01/2042	RYM	96.500	09/06/2012	1,000	0	0
					$ 1	$ 0

(l) Written options outstanding on June 30, 2012:

Interest Rate Swaptions

Description	Counterparty	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount	Premium	Market Value
Call - OTC 1-Year Interest Rate Swap	GLM	3-Month USD-LIBOR	Receive	0.795%	10/11/2012	$ 400	$ 0	$ (1)
Put - OTC 1-Year Interest Rate Swap	GLM	3-Month USD-LIBOR	Pay	0.795%	10/11/2012	400	0	0
Call - OTC 1-Year Interest Rate Swap	JPM	3-Month USD-LIBOR	Receive	0.795%	10/11/2012	300	0	(1)
Put - OTC 1-Year Interest Rate Swap	JPM	3-Month USD-LIBOR	Pay	0.795%	10/11/2012	300	0	0
Call - OTC 2-Year Interest Rate Swap	MYC	3-Month USD-LIBOR	Receive	0.915%	11/14/2012	1,300	0	(9)
Put - OTC 2-Year Interest Rate Swap	MYC	3-Month USD-LIBOR	Pay	0.915%	11/14/2012	1,300	0	0
Call - OTC 5-Year Interest Rate Swap	BOA	3-Month USD-LIBOR	Receive	1.400%	03/18/2013	300	2	(5)
Put - OTC 5-Year Interest Rate Swap	BOA	3-Month USD-LIBOR	Pay	1.400%	03/18/2013	300	7	(2)
Call - OTC 5-Year Interest Rate Swap	DUB	3-Month USD-LIBOR	Receive	1.400%	03/18/2013	2,200	11	(36)
Put - OTC 5-Year Interest Rate Swap	DUB	3-Month USD-LIBOR	Pay	1.400%	03/18/2013	2,200	61	(14)
Call - OTC 5-Year Interest Rate Swap	DUB	3-Month USD-LIBOR	Receive	1.700%	03/18/2013	3,700	44	(105)
Put - OTC 5-Year Interest Rate Swap	DUB	3-Month USD-LIBOR	Pay	1.700%	03/18/2013	3,700	70	(13)
Call - OTC 5-Year Interest Rate Swap	MYC	3-Month USD-LIBOR	Receive	1.700%	03/18/2013	400	6	(11)
Put - OTC 5-Year Interest Rate Swap	MYC	3-Month USD-LIBOR	Pay	1.700%	03/18/2013	400	7	(1)
Put - OTC 10-Year Interest Rate Swap	MYC	3-Month USD-LIBOR	Pay	10.000%	07/10/2012	600	3	0
							$ 211	$ (198)

Foreign Currency Options

Description	Counterparty	Exercise Price	Expiration Date	Notional Amount	Premium	Market Value
Call - OTC USD versus MXN	BPS	MXN 14.300	07/12/2012	$ 374	$ 5	$ 0
Call - OTC USD versus MXN	BPS	14.100	07/19/2012	130	1	0
Call - OTC USD versus MXN	HUS	14.100	07/19/2012	195	2	(1)
Call - OTC USD versus MXN	HUS	14.300	08/23/2012	311	5	(2)
					$ 13	$ (3)

Transactions in written call and put options for the period ended June 30, 2012:

	# of Contracts	Notional Amount	Premium
Balance at 12/31/2011	0	$ 22,500	$ 165
Sales	42	17,210	253
Closing Buys	(42)	(20,900)	(194)
Expirations	0	0	0
Exercised	0	0	0
Balance at 06/30/2012	0	$ 18,810	$ 224

(m) Foreign currency contracts outstanding on June 30, 2012:

Settlement Month	Currency to be Delivered		Currency to be Received	Counterparty	Unrealized Appreciation	Unrealized (Depreciation)	Net Unrealized Appreciation/ (Depreciation)
07/2012	CAD	414	$ 406	MSC	$ 0	$ (1)	$ (1)
07/2012	EUR	6,672	8,337	BRC	0	(106)	(106)
07/2012		7,779	9,693	CBK	0	(151)	(151)
07/2012		127	159	FBF	0	(3)	(3)
07/2012		4,336	5,435	HUS	0	(52)	(52)
07/2012		250	315	JPM	0	(1)	(1)
07/2012		717	903	MSC	0	(5)	(5)
07/2012		37	46	UAG	0	0	0
07/2012	GBP	19	29	BRC	0	0	0
07/2012	IDR	46,630	5	HUS	0	0	0
07/2012		1,500,230	159	MSC	0	(1)	(1)
07/2012		1,453,600	153	UAG	0	(2)	(2)
07/2012	INR	4,359	90	DUB	12	0	12
07/2012		173	3	HUS	0	0	0
07/2012	KRW	21,195	18	BRC	0	0	0
07/2012		102,039	86	JPM	0	(3)	(3)
07/2012		81,903	69	MSC	0	(3)	(3)
07/2012	MXN	550	40	BPS	0	(1)	(1)
07/2012		10,812	781	HUS	0	(28)	(28)

Settlement Month	Currency to be Delivered		Currency to be Received		Counterparty	Unrealized Appreciation	Unrealized (Depreciation)	Net Unrealized Appreciation/ (Depreciation)
07/2012	MXN	22,000	$	1,665	MSC	$ 20	$ 0	$ 20
07/2012	MYR	1		0	JPM	0	0	0
07/2012	NZD	3,643		2,757	CBK	0	(156)	(156)
07/2012	$	11	AUD	11	BRC	0	0	0
07/2012		50	EUR	40	BPS	0	0	0
07/2012		60		47	BRC	0	0	0
07/2012		11,251		9,033	JPM	180	0	180
07/2012		13,494		10,798	UAG	171	0	171
07/2012		31	GBP	20	HUS	0	0	0
07/2012		5	IDR	46,630	HUS	0	0	0
07/2012		158		1,500,230	MSC	3	0	3
07/2012		154		1,453,600	UAG	0	0	0
07/2012		98	INR	4,532	JPM	0	(16)	(16)
07/2012		83	KRW	96,836	BPS	1	0	1
07/2012		45		52,533	CBK	1	0	1
07/2012		45		52,533	JPM	1	0	1
07/2012		3		3,235	UAG	0	0	0
07/2012		99	MXN	1,362	UAG	3	0	3
07/2012		0	MYR	1	UAG	0	0	0
07/2012		26	ZAR	216	BRC	0	0	0
07/2012		47		390	JPM	1	0	1
08/2012	AUD	2,791	$	2,790	BOA	0	(57)	(57)
08/2012	BRL	133		68	BRC	2	0	2
08/2012	EUR	8,979		11,186	JPM	0	(179)	(179)
08/2012		8,978		11,221	UAG	0	(143)	(143)
08/2012	HKD	1,754		226	BPS	0	0	0
08/2012		4,688		604	CBK	0	0	0
08/2012	MXN	2,030		144	CBK	0	(7)	(7)
08/2012		5,335		377	HUS	0	(21)	(21)
08/2012		10,790		825	JPM	20	0	20
08/2012		806		56	MSC	0	(4)	(4)
08/2012		1,232		87	UAG	0	(5)	(5)
08/2012	SGD	3		3	UAG	0	0	0
08/2012	$	830	HKD	6,444	UAG	0	0	0
08/2012		455	MXN	6,334	BRC	18	0	18
08/2012		104		1,457	HUS	5	0	5
08/2012		181		2,497	JPM	6	0	6
08/2012		732		10,164	MSC	27	0	27
08/2012		362		5,043	UAG	15	0	15
09/2012	CAD	433	$	421	UAG	0	(4)	(4)
09/2012	EUR	40		51	BRC	0	0	0
09/2012	GBP	4,645		7,191	BPS	0	(82)	(82)
09/2012		266		416	FBF	0	(1)	(1)
09/2012		266		414	MSC	0	(3)	(3)
09/2012		120		188	RBC	0	0	0
09/2012		438		679	UAG	0	(7)	(7)
09/2012	JPY	1,297		16	DUB	0	0	0
09/2012		20,085		256	FBF	4	0	4
09/2012		18,607		235	HUS	2	0	2
09/2012		56,872		716	JPM	4	0	4
09/2012		21,146		267	RYL	2	0	2
09/2012	MXN	6,500		505	HUS	22	0	22
09/2012	$	205	CAD	211	RBC	2	0	2
09/2012		29	GBP	19	BRC	0	0	0
09/2012		218		140	DUB	1	0	1
09/2012		172		110	FBF	0	0	0
09/2012		56		36	JPM	0	0	0
09/2012		912		589	RBC	10	0	10
09/2012		265		171	RYL	2	0	2
09/2012		988		638	UAG	11	0	11
09/2012		1,175	JPY	91,948	BPS	0	(24)	(24)
09/2012		654		51,452	BRC	0	(10)	(10)
09/2012		345		27,116	DUB	0	(6)	(6)
09/2012		108		8,573	GSC	0	0	0
09/2012		214		17,050	MSC	0	(1)	(1)
09/2012		65		5,194	UAG	0	0	0
09/2012		18	KRW	21,195	BRC	0	0	0
10/2012	CNY	1,282	$	200	JPM	0	(1)	(1)

 See Accompanying Notes

Settlement Month	Currency to be Delivered		Currency to be Received		Counterparty	Unrealized Appreciation	Unrealized (Depreciation)	Net Unrealized Appreciation/ (Depreciation)
10/2012	MXN	10,000	$	771	UAG	$ 28	$ 0	$ 28
10/2012	MYR	1		0	UAG	0	0	0
10/2012	$	3	INR	173	HUS	0	0	0
10/2012		4	PHP	167	CBK	0	0	0
11/2012	EUR	414	$	525	CBK	0	0	0
11/2012		543		692	DUB	4	0	4
11/2012		1,499		1,904	FBF	9	(5)	4
11/2012		622		784	UAG	0	(4)	(4)
11/2012	TWD	84		3	BRC	0	0	0
01/2013	$	153	IDR	1,500,230	MSC	2	0	2
02/2013	CNY	4,789	$	747	DUB	0	(3)	(3)
02/2013		12,154		1,908	JPM	4	0	4
02/2013	$	492	CNY	3,091	JPM	0	(8)	(8)
05/2013	EUR	460	$	581	BOA	0	(3)	(3)
05/2013		1,538		1,972	BRC	18	0	18
05/2013		509		648	FBF	2	0	2
05/2013		569		720	UAG	0	(3)	(3)
08/2013	$	319	CNY	2,000	DUB	0	(8)	(8)
08/2013		780		4,925	UAG	0	(13)	(13)
04/2014		72		438	BRC	0	(4)	(4)
04/2014		104		633	CBK	0	(6)	(6)
04/2014		27		164	GST	0	(2)	(2)
04/2014		48		292	HUS	0	(3)	(3)
04/2014		46		280	JPM	0	(3)	(3)
04/2014		45		275	RYL	0	(3)	(3)
04/2014		96		584	UAG	0	(6)	(6)
09/2015		70		430	BOA	0	(5)	(5)
09/2015		154		941	BRC	0	(11)	(11)
09/2015		577		3,492	CBK	0	(47)	(47)
09/2015		106		640	JPM	0	(9)	(9)
09/2015		70		431	MSC	0	(5)	(5)
						$ 613	$ (1,235)	$ (622)

(n) Fair Value Measurements (1)

(i) The following is a summary of the fair valuations according to the inputs used as of June 30, 2012 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2012
Investments, at value				
Australia				
Corporate Bonds & Notes	$ 0	$ 1,354	$ 0	$ 1,354
Mortgage-Backed Securities	0	291	0	291
Sovereign Issues	0	129	0	129
Belgium				
Sovereign Issues	0	1,173	0	1,173
Canada				
Sovereign Issues	0	985	0	985
Cayman Islands				
Corporate Bonds & Notes	0	431	0	431
Denmark				
Corporate Bonds & Notes	0	5	0	5
France				
Corporate Bonds & Notes	0	4,279	0	4,279
Sovereign Issues	0	6,249	0	6,249
Germany				
Corporate Bonds & Notes	0	5,114	0	5,114
Sovereign Issues	0	1,688	0	1,688
Ireland				
Corporate Bonds & Notes	0	929	0	929
Italy				
Corporate Bonds & Notes	0	351	0	351
Mortgage-Backed Securities	0	349	0	349
Sovereign Issues	0	6,678	0	6,678
Jersey, Channel Islands				
Corporate Bonds & Notes	0	196	0	196
Mexico				
Sovereign Issues	0	1,387	0	1,387
Netherlands				
Corporate Bonds & Notes	$ 0	$ 1,393	$ 0	$ 1,393
Sovereign Issues	0	1,899	0	1,899
New Zealand				
Sovereign Issues	0	2,970	0	2,970
Norway				
Corporate Bonds & Notes	0	999	0	999
South Korea				
Corporate Bonds & Notes	0	131	0	131
Spain				
Sovereign Issues	0	987	0	987
Supranational				
Corporate Bonds & Notes	0	2,468	0	2,468
United Kingdom				
Corporate Bonds & Notes	0	3,503	0	3,503
Mortgage-Backed Securities	0	2,483	0	2,483
Sovereign Issues	0	5,853	0	5,853
United States				
Asset-Backed Securities	0	1,234	0	1,234
Bank Loan Obligations	0	378	0	378
Corporate Bonds & Notes	0	6,834	0	6,834
Mortgage-Backed Securities	0	4,932	0	4,932
Municipal Bonds & Notes	0	1,027	0	1,027
Preferred Securities	20	0	485	505
U.S. Government Agencies	0	17,672	2,305	19,977
U.S. Treasury Obligations	0	1,143	0	1,143
Short-Term Instruments				
Certificates of Deposit	0	400	0	400
Repurchase Agreements	0	369	0	369

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2012
Mexico Treasury Bills	$ 0	$ 3,616	$ 0	$ 3,616
U.S. Treasury Bills	0	929	0	929
PIMCO Short-Term Floating NAV Portfolio	610	0	0	610
Purchased Options				
Interest Rate Contracts	0	0	0	0
	$ 630	$ 92,808	$ 2,790	$ 96,228
Financial Derivative Instruments (2) - Assets				
Credit Contracts	0	177	0	177
Foreign Exchange Contracts	0	666	0	666
Interest Rate Contracts	$ 31	$ 617	$ 0	$ 648
	$ 31	$ 1,460	$ 0	$ 1,491
Financial Derivative Instruments (2) - Liabilities				
Credit Contracts	0	(25)	0	(25)
Foreign Exchange Contracts	0	(1,311)	0	(1,311)
Interest Rate Contracts	(35)	(568)	0	(603)
	$ (35)	$ (1,904)	$ 0	$ (1,939)
Totals	$ 626	$ 92,364	$ 2,790	$ 95,780

(ii) As of June 30, 2012, there were no transfers between Level 1 and 2 during the period.

(iii) The following is a reconciliation of the fair valuations using significant unobservable inputs (Level 3) for the Portfolio during the period ended June 30, 2012:

Category and Subcategory	Beginning Balance at 12/31/2011	Net Purchases	Net Sales	Accrued Discounts/ (Premiums)	Realized Gain/(Loss)	Net Change in Unrealized Appreciation/ (Depreciation) (3)	Transfers into Level 3	Transfers out of Level 3	Ending Balance at 06/30/2012	Net Change in Unrealized Appreciation/ (Depreciation) on Investments Held at 06/30/2012 (3)
Investments, at value										
Japan										
Mortgage-Backed Securities	$ 30	$ 0	$ (31)	$ 0	$ 10	$ (9)	$ 0	$ 0	$ 0	$ 0
United States										
Preferred Securities	488	0	0	0	0	(3)	0	0	485	(3)
U.S. Government Agencies	2,407	0	(102)	0	0	0	0	0	2,305	0
Totals	$ 2,925	$ 0	$ (133)	$ 0	$ 10	$ (12)	$ 0	$ 0	$ 2,790	$ (3)

(iv) The following is a summary of significant unobservable inputs used in the fair valuations of assets and liabilities categorized within Level 3 of the fair value hierarchy:

Category and Subcategory	Ending Balance at 06/30/2012	Valuation Technique	Unobservable Inputs	Input Value(s) %
Investments, at value				
United States				
Preferred Securities	$ 485	Benchmark Pricing	Base Price	100.18
U.S. Government Agencies	2,305	Third Party Vendor	Broker Quote	100.03 - 100.42
Total	$ 2,790			

(1) See note 3 in the Notes to Financial Statements for more information regarding pricing inputs and valuation techniques.
(2) Financial Derivative Instruments may include open futures contracts, swap agreements, written options, and foreign currency contracts.
(3) Any difference between Net Change in Unrealized Appreciation/(Depreciation) and Net Change in Unrealized Appreciation/(Depreciation) on Investments Held at June 30, 2012 may be due to an investment no longer held or categorized as level 3 at period end.

(o) Fair Value of Financial Derivative Instruments (1)

The following is a summary of the fair valuation of the Portfolio's derivative instruments categorized by risk exposure:

Fair Values of Financial Derivative Instruments on the Statement of Assets and Liabilities as of June 30, 2012:

	Derivatives not accounted for as hedging instruments					
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
Assets:						
Variation margin receivable on financial derivative instruments (2)	$ 0	$ 0	$ 0	$ 0	$ 52	$ 52
Unrealized appreciation on foreign currency contracts	0	0	0	613	0	613
Unrealized appreciation on OTC swap agreements	0	177	0	53	602	832
	$ 0	$ 177	$ 0	$ 666	$ 654	$ 1,497
Liabilities:						
Written options outstanding	$ 0	$ 0	$ 0	$ 3	$ 198	$ 201
Variation margin payable on financial derivative instruments (2)	0	0	0	0	6	6
Unrealized depreciation on foreign currency contracts	0	0	0	1,235	0	1,235
Unrealized depreciation on OTC swap agreements	0	25	0	73	34	132
	$ 0	$ 25	$ 0	$ 1,311	$ 238	$ 1,574

The Effect of Financial Derivative Instruments on the Statement of Operations for the Period Ended June 30, 2012:

	Derivatives not accounted for as hedging instruments					
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
Realized Gain (Loss) on Derivatives Recognized as a Result from Operations:						
Net realized (loss) on investments (purchased options)	$ 0	$ 0	$ 0	$ 0	$ (24)	$ (24)
Net realized gain on futures contracts	0	0	0	0	364	364
Net realized gain on written options	0	0	0	0	185	185
Net realized gain (loss) on swaps	0	61	0	5	(42)	24
Net realized gain on foreign currency transactions	0	0	0	1,275	0	1,275
	$ 0	$ 61	$ 0	$ 1,280	$ 483	$ 1,824
Net Change in Unrealized Appreciation (Depreciation) on Derivatives Recognized as a Result of Operations:						
Net change in unrealized appreciation on investments (purchased options)	$ 0	$ 0	$ 0	$ 0	$ 24	$ 24
Net change in unrealized (depreciation) on futures contracts	0	0	0	0	(454)	(454)
Net change in unrealized appreciation (depreciation) on written options	0	0	0	10	(123)	(113)
Net change in unrealized appreciation on swaps	0	94	0	144	39	277
Net change in unrealized (depreciation) on translation of assets and liabilities denominated in foreign currencies	0	0	0	(1,616)	0	(1,616)
	$ 0	$ 94	$ 0	$ (1,462)	$ (514)	$ (1,882)

[(1)] See note 6 in the Notes to Financial Statements for additional information.

[(2)] Only current day's variation margin is reported within the Statement of Assets and Liabilities. The variation margin is included in the open futures cumulative appreciation/(depreciation) of $(4) and open centrally cleared swaps cumulative appreciation/(depreciation) of $(321) as reported in the Notes to Schedule of Investments.

(p) Collateral (Received)/Pledged for OTC Financial Derivative Instruments

The following is a summary by counterparty of the market value of OTC financial derivative instruments and collateral (received)/pledged as of June 30, 2012:

Counterparty	Total Market Value of OTC Derivatives	Collateral (Received)/Pledged	Net Exposures [(1)]
BOA	$ (66)	$ 0	$ (66)
BPS	52	0	52
BRC	(494)	329	(165)
CBK	(407)	329	(78)
DUB	(111)	270	159
FBF	561	(560)	1
GLM	(1)	(100)	(101)
GST	(117)	0	(117)
HUS	(66)	0	(66)
JPM	(73)	0	(73)
MSC	29	(380)	(351)
MYC	100	(30)	70
RBC	13	0	13
RYL	135	(260)	(125)
SOG	(1)	0	(1)
UAG	77	(230)	(153)

[(1)] Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. See note 7, Principal Risks, in the Notes to Financial Statements for more information regarding credit and counterparty risks.

1. ORGANIZATION

The PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) (the "Portfolio") is a series of the PIMCO Variable Insurance Trust (the "Trust"). The Trust is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company ("Mutual Fund") organized as a Delaware business trust on October 3, 1997. The Portfolio offers two classes of shares: Institutional and Administrative. Information presented on these financial statements pertains to the Administrative Class of the Portfolio. Certain detailed financial information for the Institutional Class is provided separately and is available upon request. The Trust is designed to be used as an investment vehicle by separate accounts of insurance companies that fund variable annuity contracts and variable life insurance policies and by qualified pension and retirement plans.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Portfolio in the preparation of its financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

(a) Securities Transactions and Investment Income Securities transactions are recorded as of the trade date for financial reporting purposes. Securities purchased or sold on a when-issued or delayed-delivery basis may be settled 15 days or more after the trade date. Realized gains and losses from securities sold are recorded on the identified cost basis. Dividend income is recorded on the ex-dividend date, except certain dividends from foreign securities where the ex-dividend date may have passed, which are recorded as soon as the Portfolio is informed of the ex-dividend date. Interest income, adjusted for the accretion of discounts and amortization of premiums, is recorded on the accrual basis from settlement date. Estimated tax liabilities on certain foreign securities are recorded on an accrual basis and are reflected as components of interest income or net change in unrealized gain/loss on investments on the Statement of Operations, as appropriate. Tax liabilities realized as a result of such security sales are reflected as a component of net realized gain/loss on investments on the Statement of Operations. Paydown gains and losses on mortgage-related and other asset-backed securities are recorded as components of interest income on the Statement of Operations. Income or short-term capital gain distributions received from underlying funds are recorded as dividend income. Long-term capital gain distributions received from underlying funds are recorded as realized gains.

Debt obligations may be placed on non-accrual status and related interest income may be reduced by ceasing current accruals and writing off interest receivable when the collection of all or a portion of interest has become doubtful based on consistently applied procedures. A debt obligation is removed from non-accrual status when the issuer resumes interest payments or when collectability of interest is reasonably assured.

(b) Cash and Foreign Currency The functional and reporting currency for the Portfolio is the U.S. dollar. The market values of foreign securities, currency holdings and other assets and liabilities are translated into U.S. dollars based on the current exchange rates each business day. Fluctuations in the value of currency holdings and other assets and liabilities resulting from changes in exchange rates are recorded as unrealized foreign currency gains or losses. Realized gains or losses and unrealized appreciation or depreciation on investment securities and income and expenses are translated on the respective dates of such transactions. The effects of changes in foreign currency exchange rates on investments in securities are not segregated on the Statement of Operations from the effects of changes in market prices of those securities, but are included with the net realized and unrealized gain or loss on investment securities.

(c) Multiclass Operations Each class offered by the Portfolio has equal rights as to assets and voting privileges (except that shareholders of a class have exclusive voting rights regarding any matter relating solely to that class of shares). Income and non-class specific expenses are allocated daily to each class on the basis of the relative value of settled shares. Realized and unrealized capital gains and losses are allocated daily based on the relative net assets of each class of the respective Portfolio. Class specific expenses, where applicable, currently include supervisory and administrative and distribution and servicing fees.

(d) Dividends and Distributions to Shareholders Dividends from net investment income, if any, are declared daily and distributed to shareholders monthly. Net realized capital gains earned by the Portfolio, if any, will be distributed no less frequently than once each year.

Income dividends and capital gain distributions are determined in accordance with income tax regulations which may differ from U.S. GAAP. Differences between tax regulations and U.S. GAAP may change the fiscal year when income and capital items are recognized for tax and U.S. GAAP purposes. Examples of events that give rise to timing differences include wash sales, straddles and capital loss carryforwards. Further, the character of investment income and capital gains may be different for certain transactions under the two methods of accounting. Examples of characterization differences include the treatment of mortgage paydowns, swaps, foreign currency transactions and contingent debt instruments. As a result, income dividends and capital gain distributions declared during a fiscal period may differ significantly from the net investment income and realized gains reported on the Portfolio's annual financial statements presented under U.S. GAAP.

Distributions classified as a tax basis return of capital, if any, are reflected on the accompanying Statements of Changes in Net Assets and have been recorded to paid in capital. In addition, other amounts have been reclassified between undistributed net investment income, accumulated undistributed net realized gains or losses and/or paid in capital to more appropriately conform financial accounting to tax characterizations of dividend distributions.

(e) New Accounting Pronouncement In April 2011, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") related to the accounting for repurchase agreements and similar agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The ASU modifies the criteria for determining effective control of transferred assets. Effective January 1, 2012, the Portfolio began accounting for the sale and simultaneous repurchase of certain securities ("sale-buybacks") as financing transactions. These transactions were previously accounted for as purchases and sales. As such, the Portfolio may have recorded additional interest expense. See Note 5 in the Notes to Financial Statements for additional details.

In May 2011, the FASB issued an ASU to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards ("IFRS"). The FASB concluded that the amendments in this ASU will improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The financial statements have been modified to provide enhanced quantitative and qualitative disclosures surrounding fair value measurements. See Fair Value Measurements in the Notes to Schedule of Investments and Note 3 in the Notes to Financial Statements for additional details.

In December 2011, the FASB issued an ASU to enhance disclosures about financial instruments and derivative instruments that are subject to offsetting ("netting") on the Statement of Assets and Liabilities. This information will enable users of the entity's financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. The ASU is effective prospectively during interim or annual periods beginning on or after January 1, 2013. At this time, management is evaluating the implications of these changes on the financial statements.

3. INVESTMENT VALUATION AND FAIR VALUE MEASUREMENTS

(a) Investment Valuation Policies The Net Asset Value ("NAV") of the Portfolio's shares is valued as of the close of regular trading (normally 4:00 p.m., Eastern time) (the "NYSE Close") on each day that the New York Stock Exchange ("NYSE") is open (each a "Business Day"). Information that becomes known to the Portfolio or its agents after the NAV has been calculated on a particular day will not generally be used to retroactively adjust the price of a security or the NAV determined earlier that day.

For purposes of calculating the NAV, portfolio securities and other financial derivative instruments are valued on each Business Day using valuation methods as adopted by the Board of Trustees (the "Board") of the Trust. Where market quotes are readily available, fair market value is generally determined on the basis of last reported sales prices, or if no sales are reported, based on quotes obtained from a quotation reporting system, established market makers, or pricing services. Where market quotes are not readily available, portfolio securities and other financial derivative instruments are valued at fair value, as determined in good faith by the Board, its Valuation Committee, or the investment adviser (the "Adviser") pursuant to instructions from the Board or its Valuation Committee.

Market quotes are considered not readily available in circumstances where there is an absence of current or reliable market-based data (e.g., trade information, bid/ask information, or broker quotes), including where events occur after the close of the relevant market, but prior to the NYSE Close, that materially affect the values of the Portfolio's securities or financial derivative instruments. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which securities trade do not open for trading for the entire day and no other market prices are available. The Board has delegated to the Adviser, Pacific Investment Management Company LLC ("PIMCO"), the responsibility for monitoring significant events that may materially affect the values of the Portfolio's securities or financial derivative instruments and for determining whether the value of the applicable securities or financial derivative instruments should be re-evaluated in light of such significant events.

The Board has adopted methods for valuing securities and other financial derivative instruments in circumstances where market quotes are not readily available, and has delegated the responsibility for applying the valuation methods to PIMCO. The Valuation Committee has been established by the Board to oversee the implementation of the Portfolio's valuation methods and to make fair value determinations on behalf of the Board as instructed. The Board has adopted methods for valuing securities and other financial derivative instruments that may require fair valuation under particular circumstances. The Adviser monitors the continual appropriateness of methods applied and determines if adjustments should be made in light of market changes, events affecting the issuer, or other factors. If the Adviser determines that a valuation method may no longer be appropriate, another valuation method may be selected, or the Valuation Committee will take any appropriate action in accordance with procedures set forth by the Board. The Board shall review the appropriateness of the valuation methods from time to time and these methods may be amended or supplemented from time to time by the Valuation Committee.

For instances in which daily market quotes are not readily available, investments may be valued, pursuant to guidelines established by the Board, with reference to other securities or indices. In the event that the security or asset cannot be valued pursuant to the established guidelines, the value of the security or asset will be determined in good faith by the Valuation Committee of the Board, generally based upon recommendations provided by PIMCO. These methods may require subjective determinations about the value of a security. While the Trust's policy is intended to result in a calculation of the Portfolio's NAV that fairly reflects security values as of the time of pricing, the Trust cannot guarantee that values determined by the Board or persons acting at their direction would accurately reflect the price that the Portfolio could obtain for a security if it were to dispose of that security as of the time of pricing (for instance, in a forced or distressed sale). The prices used by the Portfolio may differ from the value that would be realized if the securities were sold.

(b) Fair Value Hierarchy U.S. GAAP defines fair market value as the price that the Portfolio would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. It establishes a fair value hierarchy that prioritizes inputs to valuation methods and requires disclosure of the fair value hierarchy, separately for each major category of assets and liabilities, that segregates fair value measurements into levels (Level 1, 2, and 3). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Levels 1, 2, and 3 of the fair value hierarchy are defined as follows:

- Level 1—Inputs using (unadjusted) quoted prices in active markets or exchanges for identical assets and liabilities.

- Level 2—Significant other observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market corroborated inputs.

- Level 3—Significant unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available, which may include assumptions made by the Board or persons acting at their direction that are used in determining the fair value of investments.

Assets categorized as Level 1 or 2 as of period end may have been transferred between Levels 1 and 2 since the prior period due to changes in the valuation method utilized in valuing the investments. Transfers from Level 1 to Level 2 are typically a result of a change, in the normal course of business, from the use of the trade price on the initial purchase date (Level 1) to valuation methods used by third-party pricing services (Level 2). Transfers from Level 2 to Level 1 are typically a result of exchange traded products for which quoted prices from an active market were not available (Level 2) and have become available (Level 1). In accordance with the requirements of U.S. GAAP, the amounts of such transfers between Levels 1 and 2, if any, are disclosed in the Notes to the Schedule of Investments for the Portfolio.

For fair valuations using significant unobservable inputs, U.S. GAAP requires a reconciliation of the beginning to ending balances for reported fair values that presents changes attributable to total realized and unrealized gains or losses, purchases and sales, and transfers in or out of the Level 3 category during the period. The end of period timing recognition is used for the significant transfers between Levels of a Portfolio's assets and liabilities. Additionally, U.S. GAAP requires quantitative information regarding the significant unobservable inputs used in the determination of fair value of assets categorized as Level 3 in the fair value hierarchy. In accordance with the requirements of U.S. GAAP, a fair value hierarchy, Level 3 reconciliation, and details of significant unobservable inputs, if any, have been included in the Notes to the Schedule of Investments for the Portfolio.

(c) Valuation Techniques and the Fair Value Hierarchy

Level 1 and Level 2 trading assets and trading liabilities, at fair market value The valuation methods (or "techniques") and significant inputs used in determining the fair market values of portfolio securities or financial derivative instruments categorized as Level 1 and Level 2 of the fair value hierarchy are as follows:

Fixed income securities including corporate, convertible and municipal bonds and notes, U.S. government agencies, U.S. treasury obligations, sovereign issues, bank loans, convertible preferred securities and non-U.S. bonds are normally valued by pricing service providers that use broker-dealer quotations, reported trades or valuation estimates from their internal pricing models. The service providers' internal models use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar assets. Securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Fixed income securities purchased on a delayed-delivery basis or as a repurchase commitment in a sale-buy back transaction are marked to market daily until settlement at the forward settlement date and are categorized as Level 2 of the fair value hierarchy.

Mortgage-related and asset-backed securities are usually issued as separate tranches, or classes, of securities within each deal. These securities are also normally valued by pricing service providers that use broker-dealer quotations or valuation estimates from their internal pricing models. The pricing models for these securities usually consider tranche-level attributes, current market data, estimated cash flows and market-based yield spreads for each tranche, and incorporate deal collateral performance, as available. Mortgage-related and asset-backed securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Common stocks, exchange-traded funds and financial derivative instruments, such as futures contracts or options contracts that are traded on a national securities exchange, are stated at the last reported sale or settlement price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized as Level 1 of the fair value hierarchy.

Investments initially valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from pricing service providers. As a result, the NAV of the Portfolio's shares may be affected by changes in the value of currencies in relation to the U.S. dollar. The value of securities traded in markets outside the United States or denominated in currencies other than the U.S. dollar may be affected significantly on a day that the NYSE is closed and the NAV may change on days when an investor is not able to purchase, redeem or exchange shares. Valuation adjustments may be applied to certain securities that are solely traded on a foreign exchange to account for the market movement between the close of the foreign market and the NYSE Close. These securities are valued using pricing service providers that consider the correlation of the trading patterns of the foreign security to the intraday trading in the U.S. markets for investments. Securities using these valuation adjustments are categorized as Level 2 of the fair value hierarchy. Preferred securities and other equities traded on inactive markets or valued by reference to similar instruments are also categorized as Level 2 of the fair value hierarchy.

Investments in registered open-end investment management companies will be valued based upon the NAVs of such investments and are categorized as Level 1 of the fair value hierarchy. Investments in unregistered open-end management investment companies will be calculated based upon the NAVs of such investments and are considered Level 1 provided that the NAVs are observable, calculated daily and are the value at which both purchases and sales will be conducted. Investments in privately held investment funds with significant restrictions on redemptions where the inputs of NAVs are observable will be valued based upon the NAVs of such investments and are categorized as Level 2 of the fair value hierarchy.

Short-term investments having a maturity of 60 days or less are generally valued at amortized cost which approximates fair market value. These investments are categorized as Level 2 of the fair value hierarchy.

Over-the-counter financial derivative instruments, such as foreign currency contracts, options contracts, or swap agreements, derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. These contracts are normally valued on the basis of broker dealer quotations or by pricing service providers. Depending on the product and the terms of the transaction, the value of financial derivative instruments can be estimated by a pricing service provider using a series of techniques, including simulation pricing models. The pricing models use inputs that are observed from actively quoted markets such as issuer details, indices, spreads, interest rates, yield curves, dividends and exchange rates. Financial derivative instruments that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Centrally cleared swaps listed or traded on a multilateral or trade facility platform, such as a registered exchange, are valued at the daily settlement price determined by the respective exchange. For centrally cleared credit default swaps the clearing facility requires its members to provide actionable levels across complete term structures. These levels along with external third party prices are used to produce daily settlement prices. These securities are categorized as Level 2 of the fair value hierarchy. Centrally cleared interest rate swaps are valued using a pricing model that references the underlying rates including the overnight index swap rate and London Interbank Offered Rate ("LIBOR") forward rate to produce the daily settlement price. These securities are categorized as Level 2 of the fair value hierarchy.

Level 3 trading assets and trading liabilities, at fair value When a fair valuation method is applied by PIMCO that uses significant unobservable inputs, securities will be priced by a method that the Board or persons acting at their direction believe accurately reflects fair value and are categorized as Level 3 of the fair value hierarchy. The valuation techniques and significant inputs used in determining the fair values of portfolio assets and financial derivative instruments categorized as Level 3 of the fair value hierarchy are as follows:

Benchmark Pricing procedures set the base price of a fixed-income security and subsequently adjust the price proportionally to market value changes of a pre-determined security deemed to be comparable in duration, generally a U.S. Treasury or sovereign note based on country of issuance. The base price may be a broker-dealer quote, transaction price, or an internal value as derived by analysis of market data. The base price of the security may be reset on a periodic basis based on the availability of market data and procedures approved by the Valuation Committee. Significant changes in the unobservable inputs of the benchmark pricing process (the base price) would result in direct and proportional changes in the fair value of the security. The validity of the fair value is reviewed by PIMCO on a periodic basis and may be amended as the availability of market data indicates a material change.

If third party evaluated vendor pricing is neither available nor deemed to be indicative of fair value, the Adviser may elect to obtain indicative market quotations ("broker quotes") directly from the broker-dealer or passed through from a third party vendor. In the event that the source of fair value is from a single sourced broker quote, these securities are categorized as Level 3 of the fair value hierarchy. Indicative market quotations are typically received from established market participants. Although independently received, the Adviser does not have the transparency to view the underlying inputs which support the market quotation. Significant changes in the broker quote would have direct and proportional changes in the fair value of the security.

4. SECURITIES AND OTHER INVESTMENTS

(a) Delayed-Delivery Transactions The Portfolio may purchase or sell securities on a delayed-delivery basis. These transactions involve a commitment by the Portfolio to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period. When delayed-delivery transactions are outstanding, the Portfolio will designate or receive as collateral liquid assets in an amount sufficient to meet the purchase price or respective obligations. When purchasing a security on a delayed-delivery basis, the Portfolio assumes the rights and risks of ownership of the security, including the risk of price and yield fluctuations, and takes such fluctuations into account when determining its NAV. The Portfolio may dispose of or renegotiate a delayed-delivery transaction after it is entered into which may result in a realized gain or loss. When the Portfolio has sold a security on a delayed-delivery basis, the Portfolio does not participate in future gains and losses with respect to the security.

(b) Inflation-Indexed Bonds The Portfolio may invest in inflation-indexed bonds. Inflation-indexed bonds are fixed-income securities whose principal value is periodically adjusted to the rate of inflation. The interest rate on these bonds is generally fixed at issuance at a rate lower than typical bonds. Over the life of an inflation-indexed bond, however, interest will be paid based on a principal value which is adjusted for inflation. Any increase or decrease in the principal amount of an inflation-indexed bond will be included as interest income on the Statement of Operations, even though investors do not receive their principal until maturity.

(c) Loan Participations and Assignments The Portfolio may invest in direct debt instruments which are interests in amounts owed to lenders or lending syndicates by corporate, governmental, or other borrowers. The Portfolio's investments in loans may be in the form of participations in loans or assignments of all or a portion of loans from third parties. A loan is often administered by a bank or other financial institution (the "lender") that acts as agent for all holders. The agent administers the terms of the loan, as specified in the loan agreement. The Portfolio may invest in multiple series or tranches of a loan, which may have varying terms and carry different associated risks. The Portfolio generally has no right to enforce compliance with the terms of the loan agreement with the borrower. As a result, the Portfolio may be subject to the credit risk of both the borrower and the lender that is selling the loan agreement. When the Portfolio purchases assignments from lenders it acquires direct rights against the borrower of the loan. The Portfolio may also enter into unfunded loan commitments, which are contractual obligations for future funding. Unfunded loan commitments may include revolving credit facilities, which may obligate the Portfolio to supply additional cash to the borrower on demand. Unfunded loan commitments represent a future obligation in full, even though a percentage of the notional loan amounts may not be utilized by the borrower. When investing in a loan participation, the Portfolio has the right to receive payments of principal, interest and any fees to which it is entitled only from the lender selling the loan agreement and only upon receipt of payments by the lender from the borrower. The Portfolio may receive a commitment fee based on the undrawn portion of the underlying line of credit portion of a floating rate loan. In certain circumstances, the Portfolio may receive a penalty fee upon the prepayment of a floating rate loan by a borrower. Fees earned or paid are recorded as a component of interest income or interest expense, respectively, on the Statement of Operations. As of June 30, 2012, the Portfolio had no unfunded loan commitments.

(d) Mortgage-Related and Other Asset-Backed Securities The Portfolio may invest in mortgage-related and other asset-backed securities. These securities include mortgage pass-through securities, collateralized mortgage obligations, commercial mortgage-backed securities, asset-backed securities, collateralized debt obligations and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. Mortgage-related and other asset-backed securities are interests in pools of loans or other receivables. Mortgage-related securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans. These securities provide a monthly payment which consists of both interest and principal payments. Interest payments may be determined by fixed or adjustable rates. The rate of prepayments on underlying mortgages will affect the price and volatility of a mortgage-related security, and may have the effect of shortening or extending the effective duration of the security relative to what was anticipated at the time of purchase. The timely payment of principal and interest of certain mortgage-related securities is guaranteed with the full faith and credit of the U.S. Government. Pools created and guaranteed by non-governmental issuers, including government-sponsored corporations, may be supported by various forms of insurance or guarantees, but there can be no assurance that the private insurers or guarantors can meet their obligations under the insurance policies or guarantee arrangements.

Collateralized Mortgage Obligations ("CMOs") are debt obligations of a legal entity that are collateralized by mortgages and divided into classes. CMOs are structured into multiple classes, often referred to as "tranches," with each class bearing a different stated maturity and entitled to a different schedule for payments of principal and interest, including prepayments. Commercial Mortgage-Backed Securities ("CMBS") include securities that reflect an interest in, and are secured by, mortgage loans on commercial real property. Many of the risks of investing in CMBS reflect the risks of investing in the real estate securing the underlying mortgage loans. These risks reflect the effects of local and other economic conditions on real estate markets, the ability of tenants to make loan payments, and the ability of a property to attract and retain tenants. CMOs and CMBS may be less liquid and may exhibit greater price volatility than other types of mortgage-related or asset-backed securities.

Collateralized Debt Obligations ("CDOs") include Collateralized Bond Obligations ("CBOs"), Collateralized Loan Obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust which is backed by a diversified pool of high risk, below investment grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans. The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO in which the Portfolio invests. CDOs carry additional risks including, but not limited to, (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments, (ii) the collateral may decline in value or default, (iii) the Portfolio may invest in CDOs that are subordinate to other classes, and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

(e) U.S. Government Agencies or Government-Sponsored Enterprises The Portfolio may invest in securities of U.S. Government agencies or government-sponsored enterprises. U.S. Government securities are obligations of and, in certain cases, guaranteed by, the U.S. Government, its agencies or instrumentalities. Some U.S. Government securities, such as Treasury bills, notes and bonds, and securities guaranteed by the Government National Mortgage Association ("GNMA" or "Ginnie Mae"), are supported by the full faith and credit of the U.S. Government; others, such as those of the Federal Home Loan Banks, are supported by the right of the issuer to borrow from the U.S. Department of the Treasury (the "U.S. Treasury"); others, such as those of the Federal National Mortgage Association ("FNMA" or "Fannie Mae"), are supported by the discretionary authority of the U.S. Government to purchase the agency's obligations. U.S. Government securities may include zero coupon securities, which do not distribute interest on a current basis and tend to be subject to greater risk than interest-paying securities of similar maturities.

Government-related guarantors (i.e., not backed by the full faith and credit of the U.S. Government) include FNMA and the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac"). FNMA is a government-sponsored corporation. FNMA purchases conventional (i.e., not insured or guaranteed by any government agency) residential mortgages from a list of approved seller/servicers which include state and federally chartered savings and loan associations, mutual savings banks, commercial banks and credit unions and mortgage bankers. Pass-through securities issued by FNMA are guaranteed as to timely payment of principal and interest by FNMA, but are not backed by the full faith and credit of the U.S. Government. FHLMC issues Participation Certificates ("PCs"), which are pass-through securities, each representing an undivided interest in a pool of residential mortgages. FHLMC guarantees the timely payment of interest and ultimate collection of principal, but PCs are not backed by the full faith and credit of the U.S. Government.

5. BORROWINGS AND OTHER FINANCING TRANSACTIONS

The following disclosures contain information on the Portfolio's ability to lend or borrow cash or securities to the extent permitted under the

Act, which may be viewed as borrowing or financing transactions by the Portfolio. The location and fair value amounts of these instruments are described below. For a detailed description of credit and counterparty risks that can be associated with borrowings and other financing transactions, please see Note 7, Principal Risks.

(a) Repurchase Agreements The Portfolio may engage in repurchase agreements. Under the terms of a typical repurchase agreement, the Portfolio takes possession of an underlying debt obligation (collateral) subject to an obligation of the seller to repurchase, and the Portfolio to resell, the obligation at an agreed-upon price and time. The underlying securities for all repurchase agreements are held in safekeeping at the Portfolio's custodian or designated subcustodians under tri-party repurchase agreements. The market value of the collateral must be equal to or exceed the total amount of the repurchase obligations, including interest. Securities purchased under repurchase agreements are reflected as an asset on the Statement of Assets and Liabilities. Interest earned is recorded as a component of interest income on the Statement of Operations. In periods of increased demand for collateral, the Portfolio may pay a fee for receipt of collateral, which may result in interest expense to the Portfolio.

(b) Sale-Buybacks The Portfolio may enter into financing transactions referred to as 'sale-buybacks'. A sale-buyback transaction consists of a sale of a security by the Portfolio to a financial institution, the counterparty, with a simultaneous agreement to repurchase the same or substantially the same security at an agreed-upon price and date. The Portfolio is not entitled to receive principal and interest payments, if any, made on the security sold to the counterparty during the term of the agreement. The agreed-upon proceeds for securities to be repurchased by the Portfolio are reflected as a liability on the Statement of Assets and Liabilities. The Portfolio will recognize net income represented by the price differential between the price received for the transferred security and the agreed-upon repurchase price. This is commonly referred to as the 'price drop'. A price drop consists of (i) the foregone interest and inflationary income adjustments, if any, the Portfolio would have otherwise received had the security not been sold and (ii) the negotiated financing terms between the Portfolio and counterparty. Foregone interest and inflationary income adjustments, if any, are recorded as components of interest income on the Statement of Operations. Interest payments based upon negotiated financing terms made by the Portfolio to counterparties are recorded as a component of interest expense on the Statement of Operations. In periods of increased demand for the security, the Portfolio may receive a fee for use of the security by the counterparty, which may result in interest income to the Portfolio. The Portfolio will segregate assets determined to be liquid by PIMCO or otherwise cover its obligations under sale-buyback transactions.

6. FINANCIAL DERIVATIVE INSTRUMENTS

The following disclosures contain information on how and why the Portfolio uses financial derivative instruments, the credit-risk-related contingent features in certain financial derivative instruments, and how financial derivative instruments affect the Portfolio's financial position, results of operations and cash flows. The location and fair value amounts of these instruments on the Statement of Assets and Liabilities and the realized and changes in unrealized gains and losses on the Statement of Operations, each categorized by type of financial derivative contract and related risk exposure, are included in a table in the Notes to Schedule of Investments. The financial derivative instruments outstanding as of period end as disclosed in the Notes to Schedule of Investments and the amounts of realized and changes in unrealized gains and losses on financial derivative instruments during the period as disclosed on the Statement of Operations serve as indicators of the volume of financial derivative activity for the Portfolio.

(a) Foreign Currency Contracts The Portfolio may enter into foreign currency contracts in connection with settling planned purchases or sales of securities, to hedge the currency exposure associated with some or all of the Portfolio's securities or as a part of an investment strategy. A foreign currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The market value of a foreign currency contract fluctuates with changes in foreign currency exchange rates. Foreign currency contracts are marked to market daily and the change in value is recorded by the Portfolio as an unrealized gain or loss. Realized gains or losses equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed are recorded upon delivery or receipt of the currency. These contracts may involve market risk in excess of the unrealized gain or loss reflected on the Statement of Assets and Liabilities. In addition, the Portfolio could be exposed to risk if the counterparties are unable to meet the terms of the contracts or if the value of the currency changes unfavorably to the U.S. dollar. In connection with these contracts, securities may be identified as collateral in accordance with the terms of the respective contracts.

(b) Futures Contracts The Portfolio may enter into futures contracts. The Portfolio may use futures contracts to manage its exposure to the securities markets or to movements in interest rates and currency values. The primary risks associated with the use of futures contracts are the imperfect correlation between the change in market value of the securities held by the Portfolio and the prices of futures contracts and the possibility of an illiquid market. Futures contracts are valued based upon their quoted daily settlement prices. Upon entering into a futures contract, the Portfolio is required to deposit with its futures broker, an amount of cash, or U.S. Government and Agency Obligations, or select sovereign debt, in accordance with the initial margin requirements of the broker or exchange. Futures contracts are marked to market daily and an appropriate payable or receivable for the change in value ("variation margin") is recorded by the Portfolio. Gains or losses are recognized but not considered realized until the contracts expire or are closed. Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin disclosed on the Statement of Assets and Liabilities.

(c) Options Contracts The Portfolio may write call and put options on securities and financial derivative instruments it owns or in which it may invest. Writing put options tends to increase the Portfolio's exposure to the underlying instrument. Writing call options tends to decrease the Portfolio's exposure to the underlying instrument. When the Portfolio writes a call or put, an amount equal to the premium received is recorded as a liability and subsequently marked to market to reflect the current value of the option written. These liabilities are reflected as written options outstanding on the Statement of Assets and Liabilities. Premiums received from writing options which expire are treated as realized gains. Premiums received from writing options which are exercised or closed are added to the proceeds or offset against amounts paid on the underlying futures, swap, security or currency transaction to determine the realized gain or loss. Certain options may be written with premiums to be determined on a future date. The premiums for these options are based upon implied volatility parameters at specified terms. The Portfolio as a writer of an option has no control over whether the underlying instrument may be sold (call) or purchased (put) and as a result bears the market risk of an unfavorable change in the price of the instrument underlying the written option. There is the risk the Portfolio may not be able to enter into a closing transaction because of an illiquid market.

The Portfolio may also purchase put and call options. Purchasing call options tends to increase the Portfolio's exposure to the underlying instrument. Purchasing put options tends to decrease the Portfolio's exposure to the underlying instrument. The Portfolio pays a premium which is included on the Portfolio's Statement of Assets and Liabilities as an investment and subsequently marked to market to reflect the current value of the option. Premiums paid for purchasing options which expire are treated as realized losses. Certain options may be purchased with premiums to be determined on a future date. The premiums for these options are based upon implied volatility parameters at specified terms. The risk associated with purchasing put and call options is limited to the premium paid. Premiums paid for purchasing options which are exercised or closed are added to the amounts paid or offset against the proceeds on the underlying investment transaction to determine the realized gain or loss when the underlying transaction is sold.

Interest Rate Swaptions The Portfolio may write or purchase interest rate swaption agreements which are options to enter into a pre-defined swap agreement by some specified date in the future. The writer of the swaption becomes the counterparty to the swap if the buyer exercises. The interest rate swaption agreement will specify whether the buyer of the swaption will be a fixed-rate receiver or a fixed-rate payer upon exercise.

Foreign Currency Options The Portfolio may write or purchase foreign currency options. Purchasing foreign currency options gives the Portfolio the right, but not the obligation to buy or sell the currency and will specify the amount of currency and a rate of exchange that may be exercised by a specified date. These options may be used as a short or long hedge against possible variations in foreign exchange rates or to gain exposure to foreign currencies.

Options on Securities The Portfolio may write or purchase options on securities ("Equity Option"). An Equity Option uses a specified equity security as the underlying instrument for the option contract. The Portfolio may write or purchase options to enhance returns for the Portfolio or to hedge an existing position or future investment.

(d) Swap Agreements The Portfolio may invest in swap agreements. Swap agreements are bilaterally negotiated agreements between the Portfolio and a counterparty to exchange or swap investment cash flows, assets, foreign currencies or market-linked returns at specified, future intervals. Swap agreements are privately negotiated in the over-the-counter market ("OTC swaps") or may be executed in a multilateral or other trade facility platform, such as a registered exchange ("centrally cleared swaps"). The Portfolio may enter into credit default, cross-currency, interest rate and other forms of swap agreements to manage its exposure to credit, currency, interest rate, commodity, equity and inflation risk. In connection with these agreements, securities or cash may be identified as collateral or margin in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default or bankruptcy/insolvency.

Swaps are marked to market daily based upon values from third party vendors, which may include a registered exchange, or quotations from market makers to the extent available. In the event that market quotes are not readily available and the swap cannot be valued pursuant to one of the valuation methods, the value of the swap will be determined in good faith by the Valuation Committee of the Board of Trustees, generally based upon recommendations provided by PIMCO. Changes in market value, if any, are reflected as a component of net changes in unrealized appreciation/(depreciation) on the Statement of Operations. Daily changes in valuation of centrally cleared swaps, if any, are recorded as a receivable or payable for the change in value as appropriate ("variation margin") on the Statement of Assets and Liabilities. OTC swap payments received or made at the beginning of the measurement period are reflected as such on the Statement of Assets and Liabilities and represent premiums paid or received upon entering into the swap agreement to compensate for differences between the stated terms of the swap agreement and prevailing market conditions (credit spreads, currency exchange rates, interest rates, and other relevant factors). These upfront premiums are recorded as realized gains or losses on the Statement of Operations upon termination or maturity of the swap. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss on the Statement of Operations. Net periodic payments received or paid by the Portfolio are included as part of realized gains or losses on the Statement of Operations.

Entering into these agreements involves, to varying degrees, elements of interest, credit, market and documentation risk in excess of the amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of contractual terms in the agreements and that there may be unfavorable changes in interest rates.

The Portfolio's maximum risk of loss from counterparty credit risk is the discounted net value of the cash flows to be received from the counterparty over the contract's remaining life, to the extent that amount is positive. The risk is mitigated by having a master netting arrangement between the Portfolio and the counterparty and by the posting of collateral to the Portfolio to cover the Portfolio's exposure to the counterparty.

Credit Default Swap Agreements Credit default swap agreements involve one party making a stream of payments (referred to as the buyer of protection) to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other credit event for the referenced entity, obligation or index. As a seller of protection on credit default swap agreements, the Portfolio will generally receive from the buyer of protection a fixed rate of income throughout the term of the swap provided that there is no credit event. As the seller, the Portfolio would effectively add leverage to its portfolio because, in addition to its total net assets, the Portfolio would be subject to investment exposure on the notional amount of the swap.

If the Portfolio is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. If the Portfolio is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. Recovery values are estimated by market makers considering either industry standard recovery rates or entity specific factors and considerations until a credit event occurs. If a credit event has occurred, the recovery value is determined by a facilitated auction whereby a minimum number of allowable broker bids, together with a specified valuation method, are used to calculate the settlement value.

Credit default swap agreements on corporate, sovereign or U.S. municipal issues involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default or other credit event. If a credit event occurs and cash settlement is not elected, a variety of other deliverable obligations may be delivered in lieu of the specific referenced obligation. The ability to deliver other obligations may result in a cheapest-to-deliver option (the buyer of protection's right to choose the deliverable obligation with the lowest value following a credit event). The Portfolio may use credit default swaps on corporate, sovereign or U.S. municipal issues to provide a measure of protection against defaults of the issuers (i.e., to reduce risk where the Portfolio owns or has exposure to the referenced obligation) or to take an active long or short position with respect to the likelihood of a particular issuer's default.

Credit default swap agreements on credit indices involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising the credit index. A credit index is a basket of credit instruments or exposures designed to be representative of some part of the credit market as a whole. These indices are made up of reference credits that are judged by a poll of dealers to be the most liquid entities in the credit default swap market based on the sector of the index. Components of the indices may include, but are not limited to, investment grade securities, high yield securities, asset-backed securities, emerging markets, and/or various credit ratings within each sector. Credit indices are traded using credit default swaps with standardized terms including a fixed spread and standard maturity dates. An index credit default swap references all the names in the index, and if there is a default, the credit event is settled based on that name's weight in the index. The composition of the indices changes periodically, usually every six months, and for most indices, each name has an equal weight in the index. The Portfolio may use credit default swaps on credit indices to hedge a portfolio of credit default swaps or bonds, which is less expensive than it would be to buy many credit default swaps to achieve a similar effect. Credit default swaps on indices are benchmarks for protecting investors owning bonds against default, and traders use them to speculate on changes in credit quality.

Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate, sovereign or U.S. municipal issues as of period end are disclosed in the Notes to the Schedule of Investments and serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values serve as the indicator of the current status of the payment/performance risk. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

The maximum potential amount of future payments (undiscounted) that the Portfolio as a seller of protection could be required to make under a credit default swap agreement would be an amount equal to the notional amount of the agreement. Notional amounts of each individual credit default swap agreement outstanding as of June 30, 2012 for which the Portfolio is the seller of protection are disclosed in the Notes to the Schedule of Investments. These potential amounts would be partially offset by any recovery values of the respective referenced obligations, upfront payments received upon entering into the agreement, or net amounts received from the settlement of buy protection credit default swap agreements entered into by the Portfolio for the same referenced entity or entities.

Cross-Currency Swap Agreements The Portfolio may enter into cross-currency swap agreements to gain or mitigate exposure on currency risk. Cross-currency swap agreements involve two parties exchanging two different currencies with an agreement to reverse the exchange at a later date at specified exchange rates. The exchange of currencies at the inception date of the contract takes place at the current spot rate. The re-exchange at maturity may take place at the same exchange rate, a specified rate, or the then current spot rate. Interest payments, if applicable, are made between the parties based on interest rates available in the two currencies at the inception of the contract. The terms of cross-currency swap contracts may extend for many years. Cross-currency swaps are usually negotiated with commercial and investment banks. Some cross-currency swaps may not provide for exchanging principal cash flows, but only for exchanging interest cash flows.

Interest Rate Swap Agreements The Portfolio is subject to interest rate risk exposure in the normal course of pursuing its investment objectives. Because the Portfolio holds fixed rate bonds, the value of these bonds may decrease if interest rates rise. To help hedge against this risk and to maintain its ability to generate income at prevailing market rates, the Portfolio may enter into interest rate swap agreements. Interest rate swap agreements involve the exchange by the Portfolio with another party for their respective commitment to pay or receive interest on the notional amount of principal. Certain forms of interest rate swap agreements may include: (i) interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or "cap", (ii) interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or "floor", (iii) interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels, (iv) callable interest rate swaps, under which the counterparty may terminate the swap transaction in whole at zero cost at a predetermined date and time prior to the maturity date, (v) spreadlocks, which allow the interest rate swap users to lock in the forward differential (or spread) between the interest rate swap rate and a specified benchmark, or (vi) basis swaps, under which two parties can exchange variable interest rates based on different money markets.

7. PRINCIPAL RISKS

In the normal course of business the Portfolio trades financial instruments and enters into financial transactions where risk of potential loss exists due to changes in the market (market risk), or failure or inability of the other party to a transaction to perform (credit and counterparty risk). See below for a detailed description of select principal risks. For a list of potential risks the Portfolio may be subject to, please see the Important Information About the Portfolio.

Market Risks The Portfolio's investments in financial derivatives and other financial instruments expose the Portfolio to various risks such as, but not limited to, interest rate, foreign currency and equity risks.

Interest rate risk is the risk that fixed income securities will decline in value because of changes in interest rates. As nominal interest rates rise, the value of certain fixed income securities held by the Portfolio is likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Duration is useful primarily as a measure of the sensitivity of a fixed income's market price to interest rate (i.e. yield) movements.

If the Portfolio invests directly in foreign currencies or in securities that trade in, and receive revenues in, foreign currencies, or in financial derivatives that provide exposure to foreign currencies, it will be subject to the risk that those currencies will decline in value relative to the base currency of the Portfolio, or, in the case of hedging positions, that the Portfolio's base currency will decline in value relative to the currency being hedged. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the United States or abroad. As a result, the Portfolio's investments in foreign currency denominated securities may reduce the returns of the Portfolio.

The market values of equities, such as common stocks and preferred securities or equity related investments such as futures and options, may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities and equity related investments generally have greater market price volatility than fixed income securities.

Credit and Counterparty Risks The Portfolio will be exposed to credit risk on parties with whom it trades and will also bear the risk of settlement default. The Portfolio minimizes concentrations of credit risk by undertaking transactions with a large number of customers and counterparties on recognized and reputable exchanges. The Portfolio could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a financial derivatives contract, repurchase agreement or a loan of portfolio securities, is unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings.

Similar to credit risk, the Portfolio may be exposed to counterparty risk, or the risk that an institution or other entity with which the Portfolio has unsettled or open transactions will default. Financial assets, which potentially expose the Portfolio to counterparty risk, consist principally of cash due from counterparties and investments. PIMCO, as the investment adviser, minimizes counterparty risks to the Portfolio by performing extensive reviews of each counterparty and obtaining approval from the PIMCO Counterparty Risk Committee prior to entering into transactions with a third party. Furthermore, to the extent that unpaid amounts owed to the Portfolio exceed a predetermined threshold agreed to with the counterparty, such counterparty shall advance collateral to the Portfolio in the form of cash or cash equivalents equal in value to the unpaid amount owed to the Portfolio. The Portfolio may invest such collateral in securities or other instruments and will typically pay interest to the counterparty on the collateral received. If the unpaid amount owed to the Portfolio subsequently decreases, the Portfolio would be required to return to the counterparty all or a portion of the collateral previously advanced to the Portfolio.

All transactions in listed securities are settled/paid for upon delivery using approved counterparties. The risk of default is considered minimal, as delivery of securities sold is only made once the Portfolio has received payment. Payment is made on a purchase once the securities have been delivered by the counterparty. The trade will fail if either party fails to meet its obligation.

The Portfolio is subject to various Master Agreements, which govern the terms of certain transactions with select counterparties. These Master Agreements reduce the counterparty risk associated with relevant transactions by specifying credit protection mechanisms and providing standardization that improves legal certainty. Since different types of forward and OTC financial derivative transactions have different mechanics and are sometimes traded out of different legal entities of a particular counterparty organization, each type of transaction may be covered by a different Master Agreement, resulting in the need for multiple agreements with a single counterparty. As the Master Agreements are specific to unique operations of different asset types, they allow the Portfolio to close out and net its total exposure to a counterparty in the event of a default with respect to all the transactions governed under a single agreement with a counterparty.

Master Agreements can also help limit counterparty risk by specifying collateral posting arrangements at pre-arranged exposure levels. Under the Master Agreements, collateral is routinely transferred if the total net exposure to certain transactions (net of existing collateral already in place) governed under the relevant master agreement with a counterparty in a given account exceeds a specified threshold, which typically ranges from zero to $250,000 depending on the counterparty and the type of Master Agreement. United States Treasury Bills and U.S. dollar cash are generally the preferred forms of collateral, although other forms of AAA rated paper may be used. The Portfolio's overall exposure to counterparty risk can change substantially within a short period, as it is affected by each transaction subject to the relevant Master Agreement.

Master Repurchase Agreements ("Master Repo Agreements") govern transactions between the Portfolio and select counterparties. The Master Repo Agreements maintain provisions for, among other things, initiation, income payments, events of default, and maintenance of collateral for Repurchase and Reverse Repurchase Agreements.

Master Securities Forward Transaction Agreements ("Master Forward Agreements") govern the considerations and factors surrounding the settlement of certain forward settling transactions, such as delayed-delivery or sale-buyback financing transactions by and between the Portfolio and select counterparties. The Master Forward Agreements maintain provisions for, among other things, initiation and confirmation, payment and transfer, events of default, termination, and maintenance of collateral.

International Swaps and Derivatives Association, Inc. Master Agreements ("ISDA Master Agreements") govern OTC financial derivative transactions entered into by the Portfolio and select counterparties. The ISDA Master Agreements maintain provisions for general obligations, representations, agreements, collateral and events of default or termination. Events of termination include conditions that may entitle counterparties to elect to terminate early and cause settlement of all outstanding transactions under the applicable ISDA Master Agreement. Any election to terminate early could be material to the financial statements. The market value of OTC financial derivative transactions, net of collateral received in or pledged by counterparty as of period end, is disclosed in the Notes to the Schedule of Investments.

On September 15, 2008, Lehman Brothers Holdings Inc. filed for protection under Chapter 11 of the United States Bankruptcy Code. On September 19, 2008, a proceeding under the Securities Investor Protection Act (SIPA) was commenced with respect to Lehman Brothers Inc., a broker-dealer. A trustee appointed under SIPA is administering the bankruptcy estate of Lehman Brothers Inc. Lehman Brothers International (Europe) was placed in administration under the UK Insolvency Act on September 15, 2008. Lehman Brothers Special Financing Inc. filed for protection under Chapter 11 of the United States Bankruptcy Code on October 3, 2008. In connection with these filings, the Lehman Brothers group of companies (collectively "Lehman Brothers") will be reorganized and/or liquidated in an orderly fashion, subject to court approval. Each Lehman Brothers entity is a separate legal entity that is subject to its own bankruptcy proceeding. Lehman Brothers Holdings Inc. and the other Lehman affiliates that are subject to Chapter 11 proceedings are currently in the process of liquidating their remaining assets and making distributions to approved creditors in accordance with their Third Amended Bankruptcy Plan, which was approved by the Bankruptcy Court on January 19, 2012.

Anticipated losses for securities and financial derivatives transactions associated with Lehman Brothers have been incorporated as components of receivable for investments sold or payable for investments purchased on the Statement of Assets and Liabilities and net realized gain/(loss) on investments on the Statement of Operations. Financial assets and liabilities may be offset and the net amount may be reported on the Statement of Assets and Liabilities where there is a legally enforceable right to set off the recognized amounts.

8. FEES AND EXPENSES

(a) Investment Advisory Fee PIMCO is a majority-owned subsidiary of Allianz Asset Management of America L.P. ("Allianz Asset Management"), and serves as the Adviser to the Trust, pursuant to an investment advisory contract. The Adviser receives a monthly fee from the Portfolio, at an annual rate based on average daily net assets (the "Investment Advisory Fee"). The Investment Advisory Fee for all classes is charged at an annual rate of 0.25%.

(b) Supervisory and Administrative Fee PIMCO serves as administrator (the "Administrator"), and provides supervisory and administrative services to the Trust for which it receives a monthly supervisory and administrative fee based on each share class's average daily net assets (the "Supervisory and Administrative Fee"). As the Administrator, PIMCO bears the costs of various third-party services, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Supervisory and Administrative Fee for all classes is charged at the annual rate of 0.50%.

(c) Distribution and Servicing Fees PIMCO Investments LLC ("PI"), a wholly-owned subsidiary of PIMCO, serves as the distributor ("Distributor") of the Trust's shares. The Trust has adopted an Administrative Services Plan with respect to the Administrative Class shares of the Portfolio pursuant to Rule 12b-1 under the Act (the "Administrative Plan"). Under the terms of the Administrative Plan, the Trust is permitted to compensate the Distributor, out of the Administrative Class assets of the Portfolio in an amount up to 0.15% on an annual basis of the average daily net assets of that class, for providing or procuring through financial intermediaries administrative, recordkeeping and investor services for Administrative Class shareholders of the Portfolio.

(d) Portfolio Expenses The Trust is responsible for the following expenses: (i) salaries and other compensation of any of the Trust's executive officers and employees who are not officers, directors, stockholders or employees of PIMCO or its subsidiaries or affiliates; (ii) taxes and governmental fees; (iii) brokerage fees and commissions and other portfolio transaction expenses; (iv) the costs of borrowing money, including interest expense and bank overdraft charges; (v) fees and expenses of the Trustees who are not "interested persons" of PIMCO or the Trust, and any counsel retained exclusively for their benefit; (vi) extraordinary expense, including costs of litigation and indemnification expenses and (vii) any expenses allocated or allocable to a specific class of shares, which include service fees payable with respect to the Administrative Class Shares, and may include certain other expenses as permitted by the Trust's Multiple Class Plan adopted pursuant to Rule 18f-3 under the Act and subject to review and approval by the Trustees. The ratio of expenses to average net assets per share class, as disclosed on the Financial Highlights, may differ from the annual portfolio operating expenses per share class as disclosed in the Prospectus for the reasons set forth above.

Each Trustee, other than those affiliated with PIMCO or its affiliates, receives an annual retainer of $30,000, plus $3,500 for each Board of Trustees meeting attended in person, $500 ($750 in the case of the audit committee chair with respect to audit committee meetings) for each committee meeting attended and $750 for each Board of Trustees meeting attended telephonically, plus reimbursement of related expenses. In addition, the audit committee chair will receive an additional annual retainer of $4,000 and each other committee chair will receive an additional annual retainer of $500.

These expenses are allocated on a pro-rata basis to the various portfolios of the Trust according to their respective net assets except PIMCO All Asset Portfolio does not bear any Trustee Fees. The Trust pays no compensation directly to any Trustee or any other officer who is affiliated with the Administrator, all of whom receive remuneration for their services to the Trust from the Administrator or its affiliates.

9. RELATED PARTY TRANSACTIONS

The Adviser, Administrator, and Distributor are related parties. Fees payable to these parties are disclosed in Note 8 and the accrued related party fee amounts are disclosed on the Statement of Assets and Liabilities.

The Portfolio is permitted to purchase or sell securities from or to certain related affiliated portfolios under specified conditions outlined in procedures adopted by the Board of Trustees of the Trust. The procedures have been designed to ensure that any purchase or sale of securities by the Portfolio from or to another portfolio that are, or could be, considered an affiliate by virtue of having a common investment adviser (or affiliated investment advisers), common Trustees and/or common officers complies with Rule 17a-7 of the Act. Further, as defined under the procedures, each transaction is effected at the current market price. During the period ended June 30, 2012, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 of the Act (amounts in thousands):

Purchases	Sales
$ 398	$ 0

The Portfolio may invest in the PIMCO Short-Term Floating NAV Portfolio and PIMCO Short-Term Floating NAV Portfolio III ("PIMCO Short-Term Floating NAV Portfolios") to the extent permitted by the Act and rules thereunder. The PIMCO Short-Term Floating NAV Portfolios are registered investment companies created for use solely by the series of the Trust and series of the PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, and other series of registered investment companies advised by PIMCO, in connection with their cash management activities. The main investments of the PIMCO Short-Term Floating NAV Portfolios are money market instruments and short maturity fixed income instruments. The PIMCO Short-Term Floating NAV Portfolios may incur expenses related to their investment activities, but do not pay Investment Advisory or Supervisory and Administrative Fees to PIMCO. The PIMCO Short-Term Floating NAV Portfolios are considered to be affiliated with the Portfolio. The table below shows the Portfolio's transactions in and earnings from investments in the PIMCO Short-Term Floating NAV Portfolios for the period ended June 30, 2012 (amounts in thousands):

Investments in PIMCO Short-Term Floating NAV Portfolio

Market Value 12/31/2011	Purchases at Cost	Proceeds from Sales	Net Capital and Realized Gain	Change in Unrealized (Depreciation)	Market Value 06/30/2012	Dividend Income
$ 3,804	$ 31,004	$ (34,200)	$ 3	$ (1)	$ 610	$ 4

10. GUARANTEES AND INDEMNIFICATIONS

Under the Trust's organizational documents, each Trustee, officer, employee or other agent of the Trust (including the Trust's investment manager) is indemnified, to the extent permitted by the Act, against certain liabilities that may arise out of performance of their duties to the Portfolio. Additionally, in the normal course of business, the Portfolio enters into contracts that contain a variety of 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 has not yet occurred. However, the Portfolio has not had prior claims or losses pursuant to these contracts.

11. PURCHASES AND SALES OF SECURITIES

The length of time the Portfolio has held a particular security is not generally a consideration in investment decisions. A change in the securities held by the Portfolio is known as "portfolio turnover". The Portfolio may engage in frequent and active trading of portfolio securities to achieve its investment objective, particularly during periods of volatile market movements. High portfolio turnover (e.g., over 100%) involves correspondingly greater expenses to the Portfolio, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities. Such sales may also result in realization of taxable capital gains, including short-term capital gains (which are generally taxed at ordinary income tax rates). The trading costs and tax effects associated with portfolio turnover may adversely affect the Portfolio's performance. The portfolio turnover rates are reported in the Financial Highlights.

Purchases and sales of securities (excluding short-term investments) for the period ended June 30, 2012, were as follows (amounts in thousands):

U.S. Government/Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 150,467	$ 149,061	$ 42,854	$ 44,613

12. SHARES OF BENEFICIAL INTEREST

The Portfolio may issue an unlimited number of shares of beneficial interest with a $0.001 par value. Changes in shares of beneficial interest were as follows (shares and amounts in thousands):

	Six Months Ended 06/30/2012		Year Ended 12/31/2011	
	Shares	Amount	Shares	Amount
Receipts for shares sold				
Institutional Class	0	$ 0	0	$ 0
Administrative Class	641	6,716	3,163	32,129
Issued as reinvestment of distributions				
Institutional Class	0	0	0	1
Administrative Class	84	885	231	2,331
Cost of shares redeemed				
Institutional Class	0	0	0	0
Administrative Class	(1,426)	(14,862)	(3,768)	(38,047)
Net (decrease) resulting from Portfolio share transactions	(701)	$ (7,261)	(374)	$ (3,586)

As of June 30, 2012, 2 shareholders each owned 10% or more of the total Portfolio's outstanding shares comprising 53% of the Portfolio.

13. REGULATORY AND LITIGATION MATTERS

The Trust is not engaged in any material litigation or arbitration proceedings and is not aware of any material litigation or claim pending or threatened by or against it.

14. FEDERAL INCOME TAX MATTERS

The Portfolio intends to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code (the "Code") and distribute all of its taxable income and net realized gains, if applicable, to shareholders. Accordingly, no provision for Federal income taxes has been made.

In accordance with provisions set forth under U.S. GAAP, the Investment Adviser has reviewed the Portfolio's tax positions for all open tax years. As of June 30, 2012, the Portfolio has recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions it has taken or expects to take in future tax returns.

The Portfolio files U.S. tax returns. While the statute of limitations remains open to examine the Portfolio's U.S. tax returns filed for the fiscal years ending in 2009-2011, no examinations are in progress or anticipated at this time. The Portfolio is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

Shares of the Portfolio currently are sold to segregate asset accounts ("Separate Accounts") of insurance companies that fund variable annuity contracts and variable life insurance policies ("Variable Contracts"). Please refer to the prospectus for the Separate Account and Variable Contract for information regarding federal income tax treatment of distributions to the Separate Account.

As of June 30, 2012, the aggregate cost and the net unrealized appreciation/(depreciation) of investments for federal income tax purposes are as follows (amounts in thousands):

Federal Tax Cost	Unrealized Appreciation	Unrealized (Depreciation)	Net Unrealized (Depreciation) [1]
$ 97,307	$ 1,715	$ (2,794)	$ (1,079)

[1] Primary differences, if any, between book and tax net unrealized appreciation/(depreciation) are attributable to wash sale loss deferrals.

15. SUBSEQUENT EVENTS

The Adviser has evaluated the possibility of subsequent events through the date the financial statements were issued and has determined that there are no material events that would require disclosure in the Portfolio's financial statements.

Glossary: (abbreviations that may be used in the preceding statements)

(Unaudited)

Counterparty Abbreviations:

BCY	Barclays Capital, Inc.	**FOB**	Credit Suisse Securities (USA) LLC	**MSC**	Morgan Stanley & Co., Inc.
BOA	Bank of America N.A.	**GLM**	Goldman Sachs Bank USA	**MYC**	Morgan Stanley Capital Services, Inc.
BPS	BNP Paribas S.A.	**GSC**	Goldman Sachs & Co.	**RBC**	Royal Bank of Canada
BRC	Barclays Bank PLC	**GST**	Goldman Sachs International	**RYL**	Royal Bank of Scotland Group PLC
CBK	Citibank N.A.	**HUS**	HSBC Bank USA N.A.	**SOG**	Societe Generale
DUB	Deutsche Bank AG	**JPM**	JPMorgan Chase Bank N.A.	**UAG**	UBS AG Stamford
FBF	Credit Suisse International				

Currency Abbreviations:

AUD	Australian Dollar	**HKD**	Hong Kong Dollar	**MYR**	Malaysian Ringgit
CAD	Canadian Dollar	**IDR**	Indonesian Rupiah	**NZD**	New Zealand Dollar
CNY	Chinese Renminbi	**INR**	Indian Rupee	**PHP**	Philippine Peso
DKK	Danish Krone	**JPY**	Japanese Yen	**USD**	United States Dollar
EUR	Euro	**KRW**	South Korean Won	**ZAR**	South African Rand
GBP	British Pound	**MXN**	Mexican Peso		

Exchange Abbreviations:

OTC Over-the-Counter

Index Abbreviations:

MCDX Municipal Bond Credit Derivative Index

Other Abbreviations:

ALT	Alternate Loan Trust	**BBSW**	Bank Bill Swap Reference Rate	**NCUA**	National Credit Union Administration
BABs	Build America Bonds	**LIBOR**	London Interbank Offered Rate	**TIIE**	Tasa de Interés Interbancaria de Equilibrio
BBR	Bank Bill Rate				

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General Information

Investment Adviser and Administrator

Pacific Investment Management Company LLC
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Newport Beach, CA 92660

Distributor

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New York, NY 10019

Custodian

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Kansas City, MO 64105

Transfer Agent

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Legal Counsel

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Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
1100 Walnut Street
Kansas City, MO 64106

This report is submitted for the general information of the shareholders of the PIMCO Variable Insurance Trust.

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PIMCO

Semiannual Report

June 30, 2012

Your Global Investment Authority

PIMCO Variable Insurance Trust

Share Class

- Administrative

A company of Allianz

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Dear PIMCO Variable Insurance Trust Shareholder,

We are pleased to provide you with the Semiannual Report for the PIMCO Variable Insurance Trust covering the six-month reporting period ended June 30, 2012. On the following pages please find specific details as to the Portfolio's investment performance and a discussion of the factors that affected performance.

During the six-month reporting period, market volatility remained high and investors were focused on a slowing global economy and the ongoing uncertainty in Europe. While central banks' liquidity measures led to a market rebound in the first quarter of the reporting period, risk assets came under renewed pressure in the second quarter as European political uncertainty intensified, sovereigns and financials were downgraded, and weaker U.S. economic data challenged the modest U.S. cyclical recovery. Most major economies showed signs of growth deceleration, and stubbornly high unemployment in the U.S. and Europe also began to impact consumer sentiment and spending. The Federal Reserve (the "Fed") continued to indicate that economic conditions were likely to warrant exceptionally low interest rates at least through 2014. The Fed responded to growing economic strains by extending through the end of 2012 its renewed "Operation Twist" program, which extends the average maturity of its holdings of securities, and also signaled willingness for further monetary easing if weakness in the U.S. economy persists.

Investors were somewhat relieved by the result of the Greek election on June 17 in which the New Democracy party won sufficient number of votes to be the largest party in the Greek Parliament, helping to form a pro-euro coalition government. However, this improved investor sentiment was offset by rising yields on Spanish sovereign debt that reached new highs towards the latter part of the period. This led the independent ratings agencies to downgrade Spain's credit rating as well as a round of downgrades on Spanish banks. In addition, concern over the solvency of Spanish banks forced the Spanish government to request eurozone rescue loans for its undercapitalized banks. Towards the very end of the period, investor sentiment regained some hope in reaction to the European Union summit in late June that resulted in agreements on short-term stabilization measures whereby the European Stability Mechanism (a pan-eurozone financial supervisor) would be able to invest capital directly into ailing banks, marking a step closer to a more integrated fiscal union.

In our opinion, the problems in Europe should remain factors causing continued sovereign credit market downside and market volatility. It highlights a number of issues facing many European countries, in which peripheral (and in some cases central) European economies suffer from a loss of competitiveness, negative demographics, high unemployment, currency rigidity, and high sovereign debt levels.

Highlights of the financial markets during our six-month fiscal reporting period include:

- Risk aversion drove interest rates down across developed markets, including in the U.S. and Germany where yields touched historic lows. By contrast, sovereign yields in Spain and Italy rose towards prohibitive levels. Yields on U.S. Treasury securities reversed an upward trend in the first quarter of the reporting period and declined significantly in the second quarter, ending the period lower (with prices on these securities therefore higher). Investors looked to U.S. Treasuries for their perceived safety and quality due to increasing concern of a global economic slowdown and continued uncertainty in Europe. The benchmark ten-year U.S. Treasury note yielded 1.64% at the end of the reporting period, as compared to 1.88% on December 31, 2011. The Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, returned 2.37% for the period.

- The Fed kept the Federal Funds Rate anchored within a range of zero to 0.25%; the Bank of England held its key lending rate at 0.50% and initiated increased monetary stimulus to shore up the U.K. economy; and outside of the reporting period on July 5, 2012, the European Central Bank reduced its main policy rate to 0.75% from 1.00%.

- U.S. Treasury Inflation-Protected Securities ("TIPS") returned 4.04% over the period, as represented by the Barclays U.S. TIPS Index. U.S. TIPS gained on a rally in longer-dated real yields given weak economic data and rising expectations for further easing actions by the Fed, but trailed their nominal counterparts as nominal yields saw a more significant rally. Shorted-dated U.S. TIPS sold off as real yields increased amid a sharp drop in many commodity prices. With short maturity nominal yields anchored at nearly zero due to Fed policy, changes in short term inflation expectations were the main driver of short-dated real yields.

- Diversified commodities posted negative returns, as represented by the Dow Jones-UBS Commodity Index Total Return, which declined 3.70% over the period. The sell-off in commodities was led by lower energy and industrial metals prices. Within the energy sector, crude oil prices declined on the re-pricing of global growth despite continued tensions in the Middle East. Natural gas sold off due to a very mild winter in the U.S.; however, natural gas prices rebounded somewhat in the second quarter amid hot weather conditions and expected cooling demand. The industrial metals sector performed poorly as markets priced in reduced demand from slower global growth, particularly within China, the U.S. and Europe.
- Investment grade corporate bonds and high yield credits outperformed like-duration U.S. Treasuries as corporate fundamentals generally remained robust. The bonds of financial companies outpaced the broader corporate market, particularly late in the reporting period, as the impact from ratings downgrades of U.S. banks were largely benign. Despite uncertain market conditions, issuance remained resilient, while primary market demand remained strong as investors continued to place a premium on liquidity.
- Agency mortgage-backed securities ("MBS") outperformed like-duration U.S. Treasuries over the entire reporting period on strong demand from banks and mortgage real estate investment trusts ("REITs"), despite underperforming in the last quarter of the reporting period. Lower coupon mortgages generally outperformed higher coupon mortgages due to elevated prepayment fears as government streamlined refinance programs became more efficient. Commercial mortgage-backed securities ("CMBS") outperformed U.S. Treasuries due to increased demand for higher yielding risk assets and non-Agency MBS performed well, driven by signs of a bottom in the housing market and positive supply data.
- Global equity markets generally posted positive returns but were highly volatile throughout the reporting period as investors oscillated between being "risk on" or "risk off" in response to a slowing global economy and on-going uncertainty in the eurozone. U.S. equities, as measured by the S&P 500 Index, returned 9.49%; global equities, as represented by the MSCI World Index, returned 5.91%. Emerging market ("EM") equities, as represented by the MSCI Emerging Markets Index, returned 3.93%.
- EM fixed income assets managed to post strong returns despite a volatile market environment. U.S. dollar-denominated EM assets outperformed locally-denominated EM assets, benefiting from the rally in U.S. Treasuries as well as from spread compression during the "risk-on" period for investors. Overall, countries with lower credit quality generally fared better than their investment grade counterparts. In the local space, amidst the months in which risk appetite ebbed, EM currencies suffered. As such, EM currencies were the worst performers during the first half of the reporting period, but nonetheless managed to post positive returns. Local EM debt posted positive returns and benefited from the rally that drove down local yields and led to higher local currency values.

Thank you once again for the trust you have placed in us. We value your commitment and will continue to work diligently to meet your investment needs.

Sincerely,

Brent R. Harris

Brent R. Harris
President and Chairman of the Board, PIMCO Variable Insurance Trust

July 25, 2012

Important Information About the Portfolio

PIMCO Variable Insurance Trust (the "Trust") is an open-end management investment company currently consisting of twenty separate investment portfolios, including the PIMCO Low Duration Portfolio (the "Portfolio"). The Portfolio is only available as a funding vehicle under variable life insurance policies or variable annuity contracts issued by insurance companies ("Variable Contracts"). Individuals may not purchase shares of the Portfolio directly. Shares of the Portfolio also may be sold to qualified pension and retirement plans outside of the separate account context.

We believe that bond funds have an important role to play in a well diversified investment portfolio. It is important to note, however, that in an environment where interest rates may trend upward, rising rates would negatively impact the performance of most bond funds, and fixed-income securities held by a fund are likely to decrease in value. The price volatility of fixed-income securities can also increase during periods of rising interest rates resulting in increased losses to a fund. Bond funds and individual bonds with a longer duration (a measure used to determine the sensitivity of a security's price to changes in interest rates) tend to be more sensitive to changes in interest rates, usually making them more volatile than securities or funds with shorter durations.

The Portfolio may be subject to various risks in addition to those described above. Some of these risks may include, but are not limited to, the following: interest rate risk, credit risk, high yield risk, market risk, issuer risk, liquidity risk, derivatives risk, equity risk, mortgage-related and other asset-backed risk, foreign (non-U.S.) investment risk, emerging markets risk, currency risk, leveraging risk, management risk and short sale risk. A complete description of these risks is contained in the Portfolio's prospectus. The Portfolio may use derivative instruments for hedging purposes or as part of an investment strategy. Use of these instruments may involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk and the risk that the Portfolio may not be able to close out a position when it would be most advantageous to do so. Certain derivative transactions may have a leveraging effect on the Portfolio. For example, a small investment in a derivative instrument may have a significant impact on the Portfolio's exposure to interest rates, currency exchange rates or other investments. As a result, a relatively small price movement in a derivative instrument may cause an immediate and substantial loss or gain. The Portfolio may engage in such transactions regardless of whether the Portfolio owns the asset, instrument or components of the index underlying the derivative instrument. The Portfolio may invest a significant portion of its assets in these types of instruments. If it does, the Portfolio's investment exposure could far exceed the value of its portfolio securities and its investment performance could be primarily dependent upon securities it does not own. Investing in non-U.S. securities may entail risk due to non-U.S. economic and political developments.

On the Portfolio Summary page in this Semiannual Report ("Shareholder Report"), the Average Annual Total Return table and Cumulative Return chart measure performance assuming that all dividend and capital gain distributions were reinvested.

An investment in the Portfolio is not a deposit of a bank and is not guaranteed or insured by the Federal Deposit Insurance Corporation or any other government agency. It is possible to lose money on investments in the Portfolio.

PIMCO has adopted written proxy voting policies and procedures ("Proxy Policy") as required by Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended. The Proxy Policy has been adopted by the Trust as the policies and procedures that PIMCO will use when voting proxies on behalf of the Portfolio. A description of the policies and procedures that PIMCO uses to vote proxies relating to portfolio securities of the Portfolio, and information about how the Portfolio voted proxies relating to portfolio securities held during the most recent twelve-month period ended June 30, are available without charge, upon request, by calling the Trust at (800) 927-4648, on the Portfolio's website at http://pvit.pimco-funds.com, and on the Securities and Exchange Commission's ("SEC") website at http://www.sec.gov.

The Portfolio files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. A copy of the Trust's Form N-Q is 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 D.C. and is available without charge, upon request, by calling the Trust at (800) 927-4648 and on the Portfolio's website at http://pvit.pimco-funds.com. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

PIMCO Variable Insurance Trust is distributed by PIMCO Investments LLC, 1633 Broadway, New York, New York 10019.

The following disclosure provides important information regarding the Portfolio's Expense Example ("Example" or "Expense Example"), which appears in this Shareholder Report. Please refer to this information when reviewing the Expense Example for the Portfolio.

Expense Example

As a shareholder of the Portfolio, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees; distribution and/or service (12b-1) fees (Administrative and Advisor Class only); and other Portfolio expenses. The 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 Expense Example does not reflect any fees or other expenses imposed by the Variable Contracts. If it did, the expenses reflected in the Expense Example would be higher. The Example is based on an investment of $1,000 invested at the beginning of the period and held for the entire period indicated, which is from January 1, 2012 to June 30, 2012.

Actual Expenses

The information in the table under the heading "Actual Performance" provides information about actual account values and actual expenses. You may use the information in these columns, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = $8.60), then multiply the result by the number in the row titled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

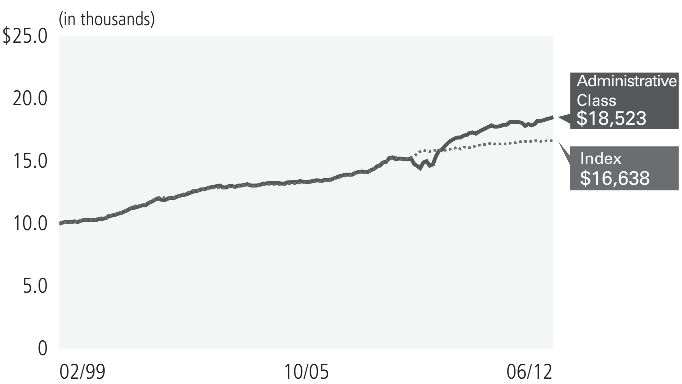
The information in the table under the heading "Hypothetical Performance (5% return before expenses)" provides information about hypothetical account values and hypothetical expenses based on the Portfolio's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Portfolio and other portfolios. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other portfolios.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs. Therefore, the information under the heading "Hypothetical Performance (5% return before expenses)" is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different portfolios. In addition, if these transactional costs were included, your costs would have been higher.

The expense ratio may vary period to period because of various factors, such as an increase in expenses not covered by the management fees (such as expenses of the independent trustees and their counsel, extraordinary expenses and interest expense).

PIMCO Low Duration Portfolio

Cumulative Returns Through June 30, 2012



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Allocation Breakdown‡

U.S. Government Agencies	37.8%
Short-Term Instruments	19.1%
U.S. Treasury Obligations	16.8%
Corporate Bonds & Notes	15.2%
Mortgage-Backed Securities	4.3%
Other	6.8%

‡ % of Total Investments as of 06/30/12

Average Annual Total Return for the period ended June 30, 2012

	6 Months*	1 Year	5 Years	10 Years	Class Inception (02/16/1999)
— PIMCO Low Duration Portfolio Administrative Class	3.02%	2.29%	5.52%	4.18%	4.69%
····· BofA Merrill Lynch 1-3 Year U.S. Treasury Index±	0.11%	0.79%	3.28%	3.02%	3.89%**

All Portfolio returns are net of fees and expenses.

* Cumulative return.
** Average annual total return since 02/28/1999.

Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Current performance may be lower or higher than performance shown. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. The Portfolio's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in Variable Contracts, which will reduce returns. For performance current to the most recent month-end, visit http://pvit.pimco-funds.com. The Portfolio's total annual operating expense ratio as stated in the Portfolio's current prospectus, as supplemented to date, is 0.65% for Administrative Class shares.

± The BofA Merrill Lynch 1-3 Year US Treasury Index is an unmanaged index comprised of U.S. Treasury securities, other than inflation-protection securities and STRIPS, with at least $1 billion in outstanding face value and a remaining term to final maturity of at least one year and less than three years. It is not possible to invest directly in an unmanaged index.

Expense Example	Actual Performance	Hypothetical Performance (5% return before expenses)
Beginning Account Value (01/01/12)	$1,000.00	$1,000.00
Ending Account Value (06/30/12)	$1,030.20	$1,021.63
Expenses Paid During Period*	$ 3.28	$ 3.27
Net Annualized Expense Ratio	0.65%	0.65%

** Expenses paid during the period are equal to the net annualized expense ratio for the class, multiplied by the average account value over the period, multiplied by 182/366 (to reflect the one-half year period). Overall fees and expenses of investing in the Portfolio will be higher because the example does not reflect variable contract fees and expenses.*

Please refer to the Important Information section for an explanation of the information presented in the above Expense Example.

Portfolio Insights

» The PIMCO Low Duration Portfolio seeks maximum total return, consistent with preservation of capital and prudent investment management, by investing, under normal circumstances, at least 65% of its total assets in a diversified portfolio of Fixed Income Instruments of varying maturities, which may be represented by forwards or derivatives, such as options, futures contracts or swap agreements. "Fixed Income Instruments" include bonds, debt securities and other similar instruments issued by various U.S. and non-U.S. public or private sector entities.

» Holdings of Agency mortgage pass-through securities added to returns as these high-quality assets outperformed like-duration U.S. Treasuries during the reporting period.

» Allocations to investment-grade corporate securities added to returns as the sector outperformed like-duration U.S. Treasuries during the reporting period.

» Exposure to the high yield sector added to returns as high yield securities outpaced like-duration U.S. Treasuries during the reporting period.

» Currency strategies designed to benefit from a depreciation of the euro, during the first half of the reporting period, detracted from performance as the euro appreciated versus the U.S. dollar.

» Exposure to emerging market securities added to returns as the sector outperformed like-duration U.S. Treasuries during the reporting period.

» An overweight to U.S. duration (or sensitivity to changes in market interest rates) added to returns as five-year U.S. Treasury yields fell during the reporting period.

Financial Highlights PIMCO Low Duration Portfolio

Selected Per Share Data for the Year or Period Ended:	06/30/2012+	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007
Administrative Class						
Net asset value beginning of year or period	$ 10.38	$ 10.44	$ 10.11	$ 9.68	$ 10.30	$ 10.06
Net investment income (a)	0.08	0.14	0.14	0.31	0.41	0.48
Net realized/unrealized gain (loss)	0.23	(0.02)	0.39	0.95	(0.46)	0.24
Total income (loss) from investment operations	0.31	0.12	0.53	1.26	(0.05)	0.72
Dividends from net investment income	(0.11)	(0.18)	(0.17)	(0.36)	(0.41)	(0.48)
Distributions from net realized capital gains	0.00	0.00	(0.03)	(0.47)	(0.16)	0.00
Total distributions	(0.11)	(0.18)	(0.20)	(0.83)	(0.57)	(0.48)
Net asset value end of year or period	$ 10.58	$ 10.38	$ 10.44	$ 10.11	$ 9.68	$ 10.30
Total return	3.02%	1.11%	5.29%	13.32%	(0.42)%	7.36%
Net assets end of year or period (000s)	$ 1,343,142	$ 1,326,770	$ 1,238,086	$ 890,238	$ 1,143,209	$ 1,412,835
Ratio of expenses to average net assets	0.65%*	0.65%	0.65%	0.67%	0.70%	0.65%
Ratio of expenses to average net assets excluding interest expense	0.65%*	0.65%	0.65%	0.65%	0.65%	0.65%
Ratio of net investment income to average net assets	1.47%*	1.37%	1.33%	3.07%	4.00%	4.72%
Portfolio turnover rate	398%**	456%**	351%**	662%	293%	72%

+ Unaudited
* Annualized
** The ratio excludes PIMCO Short-Term Floating NAV Portfolio.
(a) Per share amounts based on average number of shares outstanding during the year or period.

(Amounts in thousands, except per share amounts)	June 30, 2012
Assets:	
Investments, at value	$ 2,538,143
Investments in Affiliates, at value	177,893
Repurchase agreements, at value	2,428
Deposits with counterparty	98
Foreign currency, at value	1,520
Receivable for investments sold	327,236
Receivable for Portfolio shares sold	860
Interest and dividends receivable	6,801
Dividends receivable from Affiliates	63
OTC swap premiums paid	5,201
Unrealized appreciation on foreign currency contracts	3,581
Unrealized appreciation on OTC swap agreements	2,451
	3,066,275
Liabilities:	
Payable for investments purchased	$ 1,154,869
Payable for investments in Affiliates purchased	39
Payable for short sales	2,150
Deposits from counterparty	4,702
Payable for Portfolio shares redeemed	4,695
Overdraft due to custodian	10
Written options outstanding	670
Accrued investment advisory fees	397
Accrued supervisory and administrative fees	397
Accrued distribution fees	102
Accrued servicing fees	170
Variation margin payable on financial derivative instruments	177
OTC swap premiums received	4,313
Unrealized depreciation on foreign currency contracts	7,367
Unrealized depreciation on OTC swap agreements	3,229
	1,183,287
Net Assets	$ 1,882,988
Net Assets Consist of:	
Paid in capital	$ 1,882,351
Undistributed net investment income	3,790
Accumulated undistributed net realized (loss)	(10,579)
Net unrealized appreciation	7,426
	$ 1,882,988
Net Assets:	
Institutional Class	$ 54,194
Administrative Class	1,343,142
Advisor Class	485,652
Shares Issued and Outstanding:	
Institutional Class	5,120
Administrative Class	126,897
Advisor Class	45,883
Net Asset Value and Redemption Price Per Share Outstanding:	
Institutional Class	$ 10.58
Administrative Class	10.58
Advisor Class	10.58
Cost of Investments	$ 2,527,742
Cost of Investments in Affiliates	$ 177,902
Cost of Repurchase Agreements	$ 2,428
Cost of Foreign Currency Held	$ 1,521
Proceeds Received on Short Sales	$ 2,148
Premiums Received on Written Options	$ 1,706

Statement of Operations PIMCO Low Duration Portfolio

(Unaudited)

(Amounts in thousands)	Six Months Ended June 30, 2012
Investment Income:	
Interest	$ 18,367
Dividends	433
Dividends from Affiliate investments	366
Total Income	19,166
Expenses:	
Investment advisory fees	2,252
Supervisory and administrative fees	2,252
Servicing fees – Administrative Class	985
Distribution and/or servicing fees – Advisor Class	549
Trustees' fees	11
Interest expense	9
Miscellaneous expense	1
Total Expenses	6,059
Net Investment Income	13,107
Net Realized and Unrealized Gain (Loss):	
Net realized gain on investments	6,787
Net realized gain on Affiliate investments	208
Net realized gain on futures contracts	2,141
Net realized gain on written options	1,799
Net realized gain on swaps	6,965
Net realized gain on foreign currency transactions	9,139
Net change in unrealized appreciation on investments	20,367
Net change in unrealized (depreciation) on Affiliate investments	(66)
Net change in unrealized appreciation on futures contracts	203
Net change in unrealized (depreciation) on written options	(1,715)
Net change in unrealized appreciation on swaps	2,520
Net change in unrealized (depreciation) on translation of assets and liabilities denominated in foreign currencies	(7,328)
Net Gain	41,020
Net Increase in Net Assets Resulting from Operations	$ 54,127

Statements of Changes in Net Assets PIMCO Low Duration Portfolio

(Amounts in thousands)	Six Months Ended June 30, 2012 (Unaudited)	Year Ended December 31, 2011
Increase in Net Assets from:		
Operations:		
Net investment income	$ 13,107	$ 23,478
Net realized gain	26,831	6,708
Net realized gain (loss) on Affiliate investments	208	(199)
Net change in unrealized appreciation (depreciation)	14,047	(12,817)
Net change in unrealized appreciation (depreciation) on Affiliate investments	(66)	130
Net increase resulting from operations	54,127	17,300
Distributions to Shareholders:		
From net investment income		
Institutional Class	(702)	(1,163)
Administrative Class	(14,103)	(22,065)
Advisor Class	(4,455)	(5,563)
Total Distributions	(19,260)	(28,791)
Portfolio Share Transactions:		
Net increase resulting from Portfolio share transactions**	69,450	217,564
Total Increase in Net Assets	104,317	206,073
Net Assets:		
Beginning of period	1,778,671	1,572,598
End of period*	$ 1,882,988	$ 1,778,671
*Including undistributed net investment income of:	$ 3,790	$ 9,943

**See note 12 in the Notes to Financial Statements.

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
BANK LOAN OBLIGATIONS 0.2%			
Charter Communications, Inc.			
3.500% due 09/06/2016	$	461	$ 458
HCA, Inc.			
2.495% due 11/17/2013		2,200	2,191
Total Bank Loan Obligations (Cost $2,638)			**2,649**
CORPORATE BONDS & NOTES 21.9%			
BANKING & FINANCE 13.6%			
Ally Financial, Inc.			
2.667% due 12/01/2014		1,000	960
3.667% due 02/11/2014		1,000	998
3.868% due 06/20/2014		1,200	1,195
4.500% due 02/11/2014		1,200	1,220
ANZ National International Ltd.			
6.200% due 07/19/2013		1,000	1,049
Australia & New Zealand Banking Group Ltd.			
1.316% due 05/08/2013		4,200	4,209
Banco Bradesco S.A.			
2.566% due 05/16/2014		7,100	7,094
Banco do Brasil S.A.			
4.500% due 01/22/2015		600	638
Banco Mercantil del Norte S.A.			
4.375% due 07/19/2015		1,600	1,664
Banco Santander Chile			
2.875% due 11/13/2012		4,500	4,511
3.750% due 09/22/2015		2,900	2,915
Bank of America Corp.			
6.000% due 09/01/2017		1,250	1,351
7.375% due 05/15/2014		1,500	1,614
Bank of Montreal			
1.950% due 01/30/2018		6,300	6,494
Bank of Tokyo-Mitsubishi UFJ Ltd.			
3.850% due 01/22/2015		1,400	1,479
Bank One Corp.			
5.250% due 01/30/2013		848	869
Banque PSA Finance S.A.			
2.361% due 04/04/2014		2,500	2,433
Bear Stearns Cos. LLC			
6.250% due 12/07/2012	AUD	1,300	1,339
BNP Paribas S.A.			
0.869% due 04/08/2013	$	5,200	5,156
BPCE S.A.			
2.375% due 10/04/2013		400	394
BRFkredit A/S			
0.717% due 04/15/2013		4,200	4,201
Caledonia Generating LLC			
1.950% due 02/28/2022 (a)		2,100	2,100
Citigroup, Inc.			
1.317% due 02/15/2013		2,500	2,500
1.919% due 01/13/2014		2,600	2,590
5.500% due 04/11/2013		7,100	7,302
5.625% due 08/27/2012		3,800	3,823
Credit Agricole S.A.			
1.916% due 01/21/2014		5,200	5,054
DanFin Funding Ltd.			
1.167% due 07/16/2013		9,700	9,737
Dexia Credit Local S.A.			
0.867% due 03/05/2013		9,100	8,830
0.946% due 04/29/2014		4,200	3,943

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Eksportfinans ASA			
2.000% due 09/15/2015	$	400	$ 358
2.375% due 05/25/2016		2,500	2,225
5.500% due 06/26/2017		1,200	1,167
Export-Import Bank of Korea			
2.268% due 03/21/2015		8,400	8,388
FCE Bank PLC			
7.125% due 01/15/2013	EUR	4,800	6,272
FIH Erhvervsbank A/S			
0.838% due 06/13/2013	$	15,700	15,707
First Horizon National Corp.			
5.375% due 12/15/2015		900	951
Ford Motor Credit Co. LLC			
2.750% due 05/15/2015		3,600	3,632
7.000% due 10/01/2013		1,350	1,444
7.000% due 04/15/2015		900	1,002
8.000% due 06/01/2014		100	111
8.700% due 10/01/2014		400	456
Golden West Financial Corp.			
4.750% due 10/01/2012		600	606
Goldman Sachs Group, Inc.			
1.070% due 01/30/2017	EUR	7,900	8,884
3.300% due 05/03/2015	$	400	400
5.250% due 07/27/2021		6,100	6,212
6.125% due 02/14/2017	GBP	200	333
HSBC USA, Inc.			
2.375% due 02/13/2015	$	800	810
Industrial Bank of Korea			
3.750% due 09/29/2016		2,200	2,299
ING Bank NV			
1.518% due 03/15/2013		6,000	6,003
1.868% due 06/09/2014		1,500	1,481
3.900% due 03/19/2014		1,100	1,155
International Lease Finance Corp.			
5.650% due 06/01/2014		5,000	5,150
6.500% due 09/01/2014		11,200	11,872
6.625% due 11/15/2013		1,805	1,873
Intesa Sanpaolo SpA			
2.867% due 02/24/2014		2,300	2,161
JPMorgan Chase & Co.			
3.150% due 07/05/2016		3,000	3,089
KFW			
3.875% due 01/21/2019	EUR	600	872
4.375% due 07/04/2018		1,200	1,778
Lloyds TSB Bank PLC			
2.816% due 01/24/2014	$	3,400	3,420
Merrill Lynch & Co., Inc.			
1.228% due 09/15/2026		900	644
5.571% due 10/04/2012		7,800	7,840
6.500% due 07/15/2018		100	108
National Australia Bank Ltd.			
1.189% due 04/11/2014		9,000	9,009
National Bank of Canada			
1.500% due 06/26/2015		3,300	3,313
Nationwide Building Society			
2.500% due 08/17/2012		1,200	1,203
PNC Preferred Funding Trust			
2.118% due 03/15/2017 (d)		1,100	829
Prudential Covered Trust			
2.997% due 09/30/2015		3,300	3,355
Qatari Diar Finance QSC			
3.500% due 07/21/2015		4,300	4,521
5.000% due 07/21/2020		5,000	5,625
Rabobank Group			
4.200% due 05/13/2014		2,000	2,091

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Royal Bank of Scotland Group PLC			
1.247% due 10/14/2016	$	200	$ 157
Sberbank of Russia Via SB Capital S.A.			
6.125% due 02/07/2022		600	628
SLM Corp.			
0.992% due 06/17/2013	EUR	1,100	1,357
Tayarra Ltd.			
3.628% due 02/15/2022	$	1,938	2,094
UBS AG			
1.466% due 01/28/2014		1,000	995
Wachovia Corp.			
0.837% due 10/15/2016		3,400	3,235
Waha Aerospace BV			
3.925% due 07/28/2020		4,760	4,972
Westpac Banking Corp.			
2.250% due 11/19/2012		6,900	6,947
			256,696
INDUSTRIALS 6.1%			
Anheuser-Busch InBev Worldwide, Inc.			
1.016% due 01/27/2014		6,400	6,455
Cadbury Schweppes U.S. Finance LLC			
5.125% due 10/01/2013		5,015	5,255
Caterpillar, Inc.			
0.637% due 05/21/2013		6,000	6,021
Comcast Cable Communications Holdings, Inc.			
8.375% due 03/15/2013		6,100	6,431
COX Communications, Inc.			
4.625% due 06/01/2013		1,675	1,734
7.125% due 10/01/2012		8,000	8,120
Daimler Finance North America LLC			
1.668% due 09/13/2013		1,600	1,610
Deutsche Telekom International Finance BV			
5.250% due 07/22/2013		8,869	9,259
Dow Chemical Co.			
6.000% due 10/01/2012		2,272	2,300
EOG Resources, Inc.			
1.216% due 02/03/2014		6,600	6,658
Florida Gas Transmission Co. LLC			
4.000% due 07/15/2015		1,700	1,768
Gazprom OAO Via RBS AG			
9.625% due 03/01/2013		200	210
General Mills, Inc.			
5.250% due 08/15/2013		3,500	3,675
Hewlett-Packard Co.			
0.747% due 05/24/2013		3,800	3,793
Hutchison Whampoa International Ltd.			
6.500% due 02/13/2013		5,000	5,161
Kraft Foods, Inc.			
1.344% due 07/10/2013		9,400	9,437
2.625% due 05/08/2013		8,100	8,222
Noble Group Ltd.			
6.750% due 01/29/2020		5,000	4,850
Pearson Dollar Finance PLC			
5.500% due 05/06/2013		7,000	7,252
Pemex Project Funding Master Trust			
7.500% due 12/18/2013	GBP	100	168
Sinopec Group Overseas Development Ltd.			
2.750% due 05/17/2017	$	6,000	6,119
Time Warner Cable, Inc.			
6.200% due 07/01/2013		3,000	3,153
Volkswagen International Finance NV			
0.911% due 10/01/2012		5,500	5,504
WM Wrigley Jr. Co.			
3.050% due 06/28/2013		500	506
			113,661

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
UTILITIES 2.2%		
AK Transneft OJSC Via TransCapitalInvest Ltd.		
7.700% due 08/07/2013	$ 4,800	$ 5,087
BellSouth Corp.		
4.020% due 04/26/2021	5,600	5,743
Centrais Eletricas Brasileiras S.A.		
6.875% due 07/30/2019	700	818
Dominion Resources, Inc.		
5.000% due 03/15/2013	3,000	3,089
Gazprom OAO Via Gaz Capital S.A.		
7.510% due 07/31/2013	2,500	2,637
Gazprom OAO Via White Nights Finance BV		
10.500% due 03/08/2014	5,850	6,574
10.500% due 03/25/2014	2,000	2,247
NextEra Energy Capital Holdings, Inc.		
5.350% due 06/15/2013	4,000	4,167
Qtel International Finance Ltd.		
3.375% due 10/14/2016	2,300	2,396
Qwest Corp.		
3.718% due 06/15/2013	8,800	8,810
TNK-BP Finance S.A.		
7.500% due 07/18/2016	400	447
		42,015
Total Corporate Bonds & Notes (Cost $410,726)		**412,372**
MUNICIPAL BONDS & NOTES 0.2%		
NEW JERSEY 0.2%		
New Jersey Economic Development Authority Revenue Notes, (BABs), Series 2010		
1.468% due 06/15/2013	3,300	3,303
Total Municipal Bonds & Notes (Cost $3,300)		**3,303**
U.S. GOVERNMENT AGENCIES 54.6%		
Fannie Mae		
0.305% due 12/25/2036 - 07/25/2037	1,094	1,059
0.555% due 04/25/2037	781	782
0.595% due 07/25/2037 - 03/25/2044	4,224	4,224
0.645% due 05/25/2031 - 11/25/2032	401	401
0.750% due 12/25/2022	113	114
0.985% due 03/25/2040	6,296	6,361
1.050% due 04/25/2023	128	130
1.100% due 02/25/2023	7	7
1.125% due 04/27/2017	3,800	3,842
1.150% due 05/25/2022 - 06/17/2027	72	73
1.250% due 01/30/2017	7,000	7,121
1.353% due 07/01/2042 - 06/01/2043	537	542
1.403% due 09/01/2041	345	353
1.553% due 09/01/2040	3	3
2.053% due 11/01/2035	90	94
2.283% due 09/01/2035	516	548
2.485% due 07/01/2035	140	149
2.500% due 07/01/2027	6,000	6,188
3.000% due 07/01/2027 - 06/01/2042	36,900	38,638
3.500% due 08/01/2042	12,000	12,585
4.000% due 03/01/2023 - 08/01/2042	381,937	406,557
4.500% due 04/01/2013 - 08/01/2042	160,350	172,186
4.506% due 12/01/2036	$ 38	$ 40
4.636% due 09/01/2034	28	30
5.000% due 02/13/2017 - 08/01/2042	134,944	146,334
5.250% due 09/15/2016	100	118
5.375% due 06/12/2017	1,400	1,699
5.500% due 07/01/2028 - 08/01/2042	46,010	50,235
6.000% due 03/01/2017 - 01/01/2039	36,944	40,778
6.244% due 12/25/2042	13	15
6.500% due 04/01/2036 - 11/01/2036	446	507
FDIC Structured Sale Guaranteed Notes		
2.980% due 12/06/2020	4,200	4,370
Federal Housing Administration		
7.430% due 10/01/2020	5	5
Freddie Mac		
0.285% due 12/25/2036	1,537	1,529
0.392% due 07/15/2019 - 08/15/2019	2,247	2,246
0.505% due 08/25/2031	210	205
0.542% due 05/15/2036	596	597
0.592% due 12/15/2030	34	34
0.642% due 06/15/2018	51	51
1.000% due 03/08/2017	16,600	16,717
1.353% due 02/25/2045	425	412
2.521% due 09/01/2035	597	634
2.589% due 07/01/2035	275	294
4.500% due 05/01/2039 - 08/01/2042	84,298	90,114
5.000% due 05/01/2024 - 12/01/2041	2,696	2,921
5.500% due 08/23/2017 - 07/01/2038	2,479	2,726
6.000% due 09/01/2016 - 07/01/2042	1,031	1,131
6.500% due 07/25/2043	88	101
Ginnie Mae		
6.000% due 09/15/2017	1,598	1,709
Small Business Administration		
5.600% due 09/01/2028	706	816
Total U.S. Government Agencies (Cost $1,022,486)		**1,028,325**
U.S. TREASURY OBLIGATIONS 24.2%		
U.S. Treasury Inflation Protected Securities (c)		
0.125% due 04/15/2016 (g)(h)(i)	115,808	120,676
0.625% due 07/15/2021	6,125	6,834
U.S. Treasury Notes		
0.625% due 05/31/2017	11,700	11,653
0.750% due 06/30/2017 (a)	67,900	68,012
0.875% due 12/31/2016	15,600	15,749
0.875% due 01/31/2017	82,700	83,462
0.875% due 02/28/2017	44,300	44,708
0.875% due 04/30/2017	39,100	39,424
1.000% due 03/31/2017	63,300	64,210
1.375% due 11/30/2018	800	819
Total U.S. Treasury Obligations (Cost $453,724)		**455,547**
MORTGAGE-BACKED SECURITIES 6.2%		
Adjustable Rate Mortgage Trust		
3.124% due 09/25/2035	1,373	1,118
American Home Mortgage Investment Trust		
2.569% due 10/25/2034	561	514
2.736% due 02/25/2045	244	212
Banc of America Funding Corp.		
0.525% due 07/25/2037	$ 1,847	$ 1,322
5.700% due 01/20/2047	800	489
Banc of America Large Loan, Inc.		
1.992% due 11/15/2015	749	710
Banc of America Mortgage Securities, Inc.		
2.839% due 08/25/2034	4,623	4,179
2.973% due 07/25/2034	1,386	1,256
3.120% due 05/25/2033	775	712
6.500% due 10/25/2031	14	15
Banc of America/Merrill Lynch Commercial Mortgage, Inc.		
5.634% due 04/10/2049	660	686
Bear Stearns Adjustable Rate Mortgage Trust		
2.250% due 08/25/2035	3,257	3,035
2.634% due 04/25/2033	8	7
2.805% due 08/25/2035	568	385
2.814% due 01/25/2035	364	326
2.897% due 02/25/2033	2	2
2.922% due 01/25/2034	37	37
3.078% due 03/25/2035	3,213	3,173
3.096% due 07/25/2034	546	437
5.584% due 04/25/2033	13	13
Bear Stearns Alt-A Trust		
0.405% due 02/25/2034	709	583
Bear Stearns Commercial Mortgage Securities		
5.331% due 02/11/2044	400	432
5.471% due 01/12/2045	1,200	1,382
Bear Stearns Structured Products, Inc.		
2.829% due 12/26/2046	749	420
2.846% due 01/26/2036	1,388	827
CC Mortgage Funding Corp.		
0.525% due 01/25/2035	113	90
Citigroup Mortgage Loan Trust, Inc.		
2.600% due 05/25/2035	310	287
2.644% due 08/25/2035	1,373	669
Commercial Mortgage Pass-Through Certificates		
5.306% due 12/10/2046	3,600	4,066
Countrywide Alternative Loan Trust		
0.425% due 05/25/2047	769	438
6.000% due 10/25/2033	23	22
Countrywide Home Loan Mortgage Pass-Through Trust		
2.610% due 02/20/2036	703	451
2.620% due 11/25/2034	1,034	856
2.647% due 11/20/2034	2,097	1,722
2.709% due 02/20/2035	1,754	1,442
Credit Suisse First Boston Mortgage Securities Corp.		
0.888% due 03/25/2032	2	1
3.936% due 05/15/2038	5,807	5,896
Credit Suisse Mortgage Capital Certificates		
5.448% due 01/15/2049	1,365	1,381
5.851% due 03/15/2039	400	441
Deutsche Mortgage Securities, Inc.		
5.248% due 06/26/2035	1,500	1,454
Epic Opera PLC		
1.263% due 07/28/2016	GBP 979	1,449
First Horizon Alternative Mortgage Securities		
2.560% due 09/25/2034	$ 2,095	1,847
First Horizon Asset Securities, Inc.		
2.625% due 02/25/2035	3,121	2,891
2.658% due 08/25/2035	604	498
GMAC Mortgage Corp. Loan Trust		
2.947% due 11/19/2035	341	274
Granite Master Issuer PLC		
0.344% due 12/20/2054	848	816
0.384% due 12/20/2054	5,457	5,251
0.951% due 12/20/2054	GBP 885	1,324

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Granite Mortgages PLC			
1.121% due 01/20/2044	EUR	158	$ 194
1.298% due 09/20/2044	GBP	993	1,503
1.393% due 01/20/2044		137	207
Greenpoint Mortgage Funding Trust			
0.325% due 10/25/2046	$	14	14
0.325% due 01/25/2047 ^		4	4
Greenpoint Mortgage Pass-Through Certificates			
3.130% due 10/25/2033		1,946	1,726
Greenwich Capital Commercial Funding Corp.			
4.799% due 08/10/2042		200	216
5.444% due 03/10/2039		1,900	2,116
GS Mortgage Securities Corp.			
1.103% due 03/06/2020		1,573	1,564
GSR Mortgage Loan Trust			
2.651% due 09/25/2035		1,467	1,434
2.792% due 09/25/2034		254	204
Harborview Mortgage Loan Trust			
0.463% due 05/19/2035		167	105
3.091% due 07/19/2035		907	655
Holmes Master Issuer PLC			
2.107% due 10/15/2054	EUR	1,200	1,526
Impac CMB Trust			
1.245% due 07/25/2033	$	258	232
Indymac Index Mortgage Loan Trust			
2.668% due 12/25/2034		459	355
JPMorgan Chase Commercial Mortgage Securities Corp.			
5.420% due 01/15/2049		600	675
5.882% due 02/15/2051		1,300	1,484
JPMorgan Mortgage Trust			
5.005% due 02/25/2035		267	268
5.750% due 01/25/2036		64	59
LB-UBS Commercial Mortgage Trust			
5.713% due 09/15/2045		1,400	1,483
MASTR Asset Securitization Trust			
5.500% due 09/25/2033		22	23
Mellon Residential Funding Corp.			
0.722% due 06/15/2030		206	197
Merrill Lynch Floating Trust			
0.779% due 07/09/2021		15,028	14,733
Merrill Lynch Mortgage Investors, Inc.			
0.455% due 02/25/2036		517	380
Merrill Lynch/Countrywide Commercial Mortgage Trust			
5.485% due 03/12/2051		2,700	2,951
MLCC Mortgage Investors, Inc.			
0.495% due 11/25/2035		426	346
1.239% due 10/25/2035		241	210
2.192% due 01/25/2029		29	28
4.250% due 10/25/2035		993	893
Morgan Stanley Capital, Inc.			
5.809% due 12/12/2049		300	349
Morgan Stanley Re-REMIC Trust			
5.979% due 08/12/2045		700	797
Opera Finance PLC			
1.243% due 04/25/2017	GBP	4,785	6,943
Opteum Mortgage Acceptance Corp.			
0.525% due 12/25/2035	$	1,169	833
Prime Mortgage Trust			
0.645% due 02/25/2019		2	2
0.645% due 02/25/2034		20	18
Residential Funding Mortgage Securities, Inc.			
3.134% due 09/25/2035		1,410	986
Salomon Brothers Mortgage Securities, Inc.			
4.000% due 12/25/2018		50	53
Structured Adjustable Rate Mortgage Loan Trust			
1.547% due 01/25/2035		378	223
2.740% due 02/25/2034		535	521

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
2.742% due 08/25/2035	$	408	$ 326
2.756% due 08/25/2034		739	683
Structured Asset Mortgage Investments, Inc.			
0.525% due 02/25/2036		234	128
0.903% due 09/19/2032		8	7
Structured Asset Securities Corp.			
2.797% due 10/28/2035		386	307
UBS Commercial Mortgage Trust			
1.138% due 07/15/2024		758	731
Wachovia Bank Commercial Mortgage Trust			
0.322% due 06/15/2020		2,792	2,601
0.332% due 09/15/2021		4,170	4,041
5.421% due 04/15/2047		1,150	1,191
WaMu Mortgage Pass-Through Certificates			
0.515% due 12/25/2045		201	160
0.585% due 01/25/2045		1,493	1,177
0.898% due 01/25/2047		484	323
1.347% due 11/25/2042		83	72
1.349% due 05/25/2041		42	39
1.547% due 06/25/2042		49	40
1.547% due 08/25/2042		210	170
2.390% due 02/27/2034		35	35
Wells Fargo Mortgage-Backed Securities Trust			
2.601% due 12/25/2034		643	636
2.610% due 01/25/2035		880	838
2.614% due 03/25/2035		656	632
2.622% due 03/25/2036		716	636
4.913% due 09/25/2035		160	158
Total Mortgage-Backed Securities (Cost $120,148)			**117,279**
ASSET-BACKED SECURITIES 4.3%			
ACE Securities Corp.			
0.305% due 10/25/2036		133	37
AMMC CDO			
0.703% due 08/08/2017		3,128	3,042
Amortizing Residential Collateral Trust			
0.825% due 07/25/2032		13	10
Asset-Backed Securities Corp. Home Equity			
0.520% due 09/25/2034		286	251
1.892% due 03/15/2032		176	142
Atrium CDO Corp.			
0.896% due 06/27/2015		2,367	2,341
Babson CLO Ltd.			
0.787% due 11/15/2016		1,461	1,445
0.838% due 06/15/2016		235	233
Bear Stearns Asset-Backed Securities Trust			
1.245% due 10/25/2037		3,133	1,986
Cougar CLO PLC			
1.777% due 07/15/2020	EUR	11,514	13,854
Countrywide Asset-Backed Certificates			
0.505% due 05/25/2036	$	1,479	1,423
0.725% due 12/25/2031		39	21
0.945% due 12/25/2033		2,432	1,962
1.045% due 03/25/2033		1,920	1,532
Credit Suisse First Boston Mortgage Securities Corp.			
0.865% due 01/25/2032		9	7
Dryden Leveraged Loan CDO			
0.717% due 05/22/2017		2,710	2,646
Educational Services of America, Inc.			
1.395% due 09/25/2040		4,230	4,264
Equity One ABS, Inc.			
0.805% due 11/25/2032		10	8
GE-WMC Mortgage Securities LLC			
0.285% due 08/25/2036		17	5
Gulf Stream Compass CLO Ltd.			
0.726% due 01/24/2020		14,251	13,853

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
HSBC Home Equity Loan Trust			
0.534% due 01/20/2034	$	1,391	$ 1,278
Leopard CLO BV			
1.283% due 04/21/2020	EUR	939	1,142
Long Beach Mortgage Loan Trust			
0.805% due 10/25/2034	$	34	28
Merrill Lynch Mortgage Investors, Inc.			
0.445% due 08/25/2036		1,400	1,270
Morgan Stanley Investment Management Croton Ltd.			
0.727% due 01/15/2018		1,603	1,557
Panhandle-Plains Higher Education Authority, Inc.			
1.591% due 10/01/2035		2,391	2,429
Renaissance Home Equity Loan Trust			
0.745% due 12/25/2033		5,774	4,926
SLC Student Loan Trust			
4.750% due 06/15/2033		2,396	2,303
SLM Student Loan Trust			
0.546% due 10/25/2021		1,583	1,578
0.981% due 10/25/2023	EUR	5,500	6,513
1.342% due 12/15/2021	$	1,817	1,821
1.892% due 12/15/2017		1,952	1,957
3.500% due 08/17/2043		3,321	3,267
South Carolina Student Loan Corp.			
1.217% due 03/02/2020		2,000	1,996
Structured Asset Investment Loan Trust			
0.605% due 10/25/2035		738	607
Total Asset-Backed Securities (Cost $83,572)			**81,734**
SOVEREIGN ISSUES 4.4%			
Brazil Notas do Tesouro Nacional			
10.000% due 01/01/2014	BRL	127	65
10.000% due 01/01/2017		5,367	2,744
Hydro Quebec			
2.000% due 06/30/2016	$	12,800	13,267
Kommunalbanken A/S			
1.375% due 06/08/2017		7,000	6,985
Korea Development Bank			
3.250% due 03/09/2016		5,300	5,499
8.000% due 01/23/2014		1,700	1,859
Mexico Government International Bond			
6.250% due 06/16/2016	MXN	48,000	3,793
Netherlands Government Bond			
4.000% due 07/15/2018	EUR	1,100	1,592
4.000% due 07/15/2019		2,000	2,920
Province of Ontario			
0.950% due 05/26/2015	$	17,600	17,693
3.150% due 06/02/2022	CAD	8,100	8,221
3.200% due 09/08/2016		800	832
4.000% due 06/02/2021		1,200	1,306
4.200% due 06/02/2020		100	110
4.300% due 03/08/2017		9,000	9,814
4.400% due 06/02/2019		400	445
Province of Quebec			
4.250% due 12/01/2021		2,100	2,313
4.500% due 12/01/2017		600	664
4.500% due 12/01/2018		200	223
Republic of Korea			
4.875% due 09/22/2014	$	600	647
5.125% due 12/07/2016		500	565
5.750% due 04/16/2014		500	539
Societe Financement de l'Economie Francaise			
0.667% due 07/16/2012		1,000	1,001
Total Sovereign Issues (Cost $81,803)			**83,097**

	SHARES	MARKET VALUE (000S)
CONVERTIBLE PREFERRED SECURITIES 0.5%		
BANKING & FINANCE 0.5%		
Wells Fargo & Co.		
7.500% due 03/15/2013 (d)	7,463	$ 8,396
INDUSTRIALS 0.0%		
Motors Liquidation Co.		
5.250% due 03/06/2032	4,000	6
Total Convertible Preferred Securities (Cost $6,010)		**8,402**
PREFERRED SECURITIES 0.3%		
BANKING & FINANCE 0.3%		
DG Funding Trust		
2.829% due 07/30/2012 (d)	420	3,132
Farm Credit Bank		
10.000% due 12/15/2020 (d)	1,900	2,216
Total Preferred Securities (Cost $6,419)		**5,348**

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
SHORT-TERM INSTRUMENTS 27.6%		
CERTIFICATES OF DEPOSIT 2.0%		
Banco Bradesco S.A.		
1.955% due 01/24/2013	$ 1,200	1,207
Banco do Brasil S.A.		
0.000% due 08/17/2012	7,900	7,892
0.000% due 06/28/2013	7,300	7,224
Bank of Nova Scotia		
0.865% due 10/18/2012	$ 4,600	$ 4,604
Intesa Sanpaolo SpA.		
2.375% due 12/21/2012	7,200	7,022
Itau Unibanco Holding S.A.		
0.000% due 11/06/2012	3,300	3,300
1.622% due 11/05/2012	6,000	5,967
		37,216
COMMERCIAL PAPER 1.0%		
Devon Energy Corp.		
0.400% due 07/09/2012	7,200	7,199
Dominion Resources, Inc.		
0.410% due 07/16/2012	5,000	4,999
0.420% due 07/13/2012	3,500	3,500
Pacific Gas & Electric Co.		
0.430% due 07/09/2012	600	600
Xstrata Finance Canada Ltd.		
0.480% due 07/09/2012	2,000	2,000
		18,298
REPURCHASE AGREEMENTS 0.1%		
State Street Bank and Trust Co.		
0.010% due 07/02/2012	2,428	2,428
(Dated 06/29/2012. Collateralized by U.S. Treasury Notes 2.000% due 11/15/2021 valued at $2,477. Repurchase proceeds are $2,428.)		
JAPAN TREASURY BILLS 10.0%		
0.099% due 08/13/2012 - 09/24/2012 (b)	JPY 15,010,000	187,755
MEXICO TREASURY BILLS 5.1%		
4.508% due 07/05/2012 - 10/18/2012 (b)	MXN 1,298,200	$ 96,449
U.S. TREASURY BILLS 0.0%		
0.205% due 06/27/2013 (g)	$ 370	369

	SHARES	MARKET VALUE (000S)
PIMCO SHORT-TERM FLOATING NAV PORTFOLIOS (e) 9.4%		
PIMCO Short-Term Floating NAV Portfolio	13,040,578	130,667
PIMCO Short-Term Floating NAV Portfolio III	4,721,240	47,226
		177,893
Total Short-Term Instruments (Cost $517,246)		**520,408**
Total Investments 144.4% (Cost $2,708,072)		**$ 2,718,464**
Written Options (l) (0.0%) (Premiums $1,706)		**(670)**
Other Assets and Liabilities (Net) (44.4%)		**(834,806)**
Net Assets 100.0%		**$ 1,882,988**

Notes to Schedule of Investments (amounts in thousands*, except number of contracts):

* A zero balance may reflect actual amounts rounding to less than one thousand.

^ Security is in default.

(a) When-issued security.

(b) Coupon represents a weighted average yield to maturity.

(c) Principal amount of security is adjusted for inflation.

(d) Perpetual maturity, date shown represents next contractual call date.

(e) Affiliated to the Portfolio.

(f) The average amount of borrowings while outstanding during the period ended June 30, 2012 was $66,097 at a weighted average interest rate of (0.070%).

(g) Securities with an aggregate market value of $3,975 have been pledged as collateral as of June 30, 2012 for OTC swap agreements, swaptions and foreign currency contracts as governed by International Swaps and Derivatives Association, Inc. Master Agreements.

(h) Securities with an aggregate market value of $63 have been pledged as collateral for the following open futures contracts on June 30, 2012:

Description	Type	Expiration Month	# of Contracts	Unrealized Appreciation
90-Day Eurodollar March Futures	Long	03/2015	19	$ 9

(i) Centrally cleared swap agreements outstanding on June 30, 2012:

Securities with an aggregate market value of $1,025 and cash of $98 have been pledged as collateral for the following open centrally cleared swaps as of June 30, 2012.

Credit Default Swaps on Credit Indices - Buy Protection [1]

Index/Tranches	Fixed Deal (Pay) Rate	Maturity Date	Notional Amount [4]	Market Value [5]	Unrealized Appreciation
CDX.HY-18 5-Year Index	(5.000%)	06/20/2017	$ 1,782	$ 61	$ 9
CDX.IG-18 5-Year Index	(1.000%)	06/20/2017	50,500	280	534
				$ 341	$ 543

Interest Rate Swaps

Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Market Value	Unrealized Appreciation
Pay	3-Month USD-LIBOR	1.500%	03/18/2016	$ 8,300	$ 34	$ 34

(j) OTC swap agreements outstanding on June 30, 2012:

Credit Default Swaps on Corporate Issues - Buy Protection (1)

Reference Entity	Counterparty	Fixed Deal (Pay) Rate	Maturity Date	Implied Credit Spread at June 30, 2012 (3)	Notional Amount (4)	Market Value	Premiums Paid	Unrealized (Depreciation)
Credit Agricole S.A.	CBK	(1.000%)	03/20/2014	2.396%	$ 1,000	$ 23	$ 28	$ (5)

Credit Default Swaps on Corporate, Sovereign and U.S. Treasury Obligation Issues - Sell Protection (2)

Reference Entity	Counterparty	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2012 (3)	Notional Amount (4)	Market Value	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)
Ally Financial, Inc.	GST	5.000%	06/20/2014	2.922%	$ 1,800	$ 74	$ 70	$ 4
Australia Government Bond	BOA	1.000%	06/20/2017	0.682%	900	14	11	3
Australia Government Bond	CBK	1.000%	06/20/2017	0.682%	800	13	9	4
Berkshire Hathaway Finance Corp.	BOA	1.000%	03/20/2016	1.162%	1,100	(6)	(14)	8
Berkshire Hathaway Finance Corp.	DUB	1.000%	06/20/2017	1.368%	1,000	(17)	(22)	5
Brazil Government International Bond	BRC	1.000%	09/20/2015	1.171%	5,100	(25)	(39)	14
Brazil Government International Bond	CBK	1.000%	09/20/2015	1.171%	1,000	(5)	(16)	11
Brazil Government International Bond	CBK	1.000%	06/20/2016	1.310%	27,000	(314)	(52)	(262)
Brazil Government International Bond	HUS	1.000%	09/20/2015	1.171%	1,000	(5)	(10)	5
Brazil Government International Bond	HUS	1.000%	03/20/2016	1.269%	1,300	(12)	(6)	(6)
Brazil Government International Bond	HUS	1.000%	06/20/2017	1.492%	2,700	(61)	(41)	(20)
Brazil Government International Bond	JPM	1.000%	09/20/2015	1.171%	400	(2)	(4)	2
Brazil Government International Bond	JPM	1.000%	06/20/2017	1.492%	2,700	(63)	(42)	(21)
Brazil Government International Bond	UAG	1.000%	09/20/2015	1.171%	500	(3)	(5)	2
China Government International Bond	FBF	1.000%	06/20/2017	1.152%	700	(4)	(9)	5
Credit Agricole S.A.	DUB	3.000%	06/20/2016	5.592%	EUR 4,500	(510)	150	(660)
Credit Agricole S.A.	FBF	3.000%	06/20/2016	5.592%	3,400	(386)	106	(492)
Emirate of Abu Dhabi Government International Bond	MYC	1.000%	12/20/2015	1.007%	$ 2,600	0	1	(1)
Export-Import Bank of China	DUB	1.000%	12/20/2016	1.582%	2,300	(57)	(186)	129
Export-Import Bank of Korea	DUB	1.000%	12/20/2016	1.217%	1,000	(9)	(64)	55
France Government Bond	BRC	0.250%	06/20/2017	1.817%	5,700	(417)	(478)	61
France Government Bond	CBK	0.250%	12/20/2015	1.369%	500	(19)	(13)	(6)
France Government Bond	CBK	0.250%	09/20/2016	1.576%	2,100	(113)	(121)	8
France Government Bond	DUB	0.250%	09/20/2016	1.576%	400	(21)	(25)	4
France Government Bond	HUS	0.250%	09/20/2016	1.576%	5,100	(273)	(195)	(78)
France Government Bond	HUS	0.250%	06/20/2017	1.817%	5,800	(425)	(484)	59
France Government Bond	JPM	0.250%	09/20/2016	1.576%	3,300	(177)	(209)	32
France Government Bond	MYC	0.250%	09/20/2016	1.576%	8,400	(451)	(294)	(157)
France Government Bond	UAG	0.250%	09/20/2016	1.576%	2,800	(150)	(176)	26
General Electric Capital Corp.	BPS	1.250%	03/20/2013	0.581%	700	4	0	4
General Electric Capital Corp.	CBK	4.000%	12/20/2013	0.874%	2,200	104	0	104
General Electric Capital Corp.	CBK	4.325%	12/20/2013	0.874%	1,600	84	0	84
General Electric Capital Corp.	DUB	4.230%	12/20/2013	0.874%	2,400	122	0	122
General Electric Capital Corp.	DUB	4.900%	12/20/2013	0.874%	1,900	116	0	116
General Electric Capital Corp.	DUB	1.000%	03/20/2016	1.454%	100	(1)	(6)	5
General Electric Capital Corp.	JPM	1.000%	03/20/2014	0.964%	1,000	1	(29)	30
General Electric Capital Corp.	MYC	1.000%	06/20/2016	1.487%	200	(4)	(1)	(3)
Japan Government International Bond	BOA	1.000%	12/20/2015	0.568%	1,400	22	24	(2)
Japan Government International Bond	BOA	1.000%	03/20/2016	0.625%	5,900	84	82	2
Japan Government International Bond	BRC	1.000%	06/20/2015	0.466%	2,400	38	37	1
Japan Government International Bond	BRC	1.000%	12/20/2015	0.568%	1,400	22	25	(3)
Japan Government International Bond	BRC	1.000%	03/20/2016	0.625%	4,400	62	59	3
Japan Government International Bond	DUB	1.000%	09/20/2015	0.501%	9,000	147	149	(2)
Japan Government International Bond	DUB	1.000%	06/20/2017	0.899%	5,900	30	1	29
Japan Government International Bond	GST	1.000%	03/20/2015	0.425%	3,700	59	36	23
Japan Government International Bond	GST	1.000%	06/20/2017	0.899%	7,400	39	2	37
Japan Government International Bond	JPM	1.000%	03/20/2016	0.625%	1,200	17	10	7
Japan Government International Bond	MYC	1.000%	12/20/2015	0.568%	1,500	23	26	(3)
Japan Government International Bond	MYC	1.000%	06/20/2017	0.899%	1,700	9	(1)	10

Credit Default Swaps on Corporate, Sovereign and U.S. Treasury Obligation Issues - Sell Protection (2) (Cont.)

Reference Entity	Counterparty	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2012 (3)	Notional Amount (4)	Market Value	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)
Japan Government International Bond	UAG	1.000%	12/20/2015	0.568%	$ 1,400	$ 21	$ 22	$ (1)
MetLife, Inc.	CBK	1.000%	12/20/2014	2.061%	8,200	(207)	(217)	10
MetLife, Inc.	FBF	1.000%	12/20/2014	2.061%	1,300	(33)	(20)	(13)
Mexico Government International Bond	BRC	1.000%	09/20/2015	1.010%	5,100	1	(39)	40
Mexico Government International Bond	BRC	1.000%	06/20/2017	1.328%	1,900	(29)	(28)	(1)
Mexico Government International Bond	DUB	1.000%	03/20/2016	1.110%	3,400	(12)	(19)	7
Mexico Government International Bond	DUB	1.000%	06/20/2016	1.151%	7,900	(44)	19	(63)
Mexico Government International Bond	DUB	1.000%	06/20/2017	1.328%	1,900	(29)	(27)	(2)
NRG Energy, Inc.	BOA	5.000%	06/20/2017	5.672%	1,900	(50)	(195)	145
Petrobras International Finance Co.	DUB	1.000%	09/20/2012	0.763%	1,900	1	(17)	18
Republic of Germany	BRC	0.250%	06/20/2017	0.964%	6,700	(230)	(192)	(38)
Republic of Germany	CBK	0.250%	09/20/2016	0.783%	13,300	(292)	(287)	(5)
Republic of Germany	MYC	0.250%	09/20/2016	0.783%	16,400	(360)	(473)	113
Republic of Korea	BRC	1.000%	06/20/2017	1.174%	1,700	(14)	(21)	7
Republic of Korea	UAG	1.000%	06/20/2017	1.174%	3,300	(27)	(39)	12
Rio Tinto Finance USA Ltd.	DUB	1.000%	12/20/2012	0.402%	5,000	16	17	(1)
SLM Corp.	BOA	5.000%	03/20/2016	3.847%	9,000	366	16	350
U.S. Treasury Notes	BPS	0.250%	09/20/2016	0.384%	EUR 6,500	(45)	(124)	79
United Kingdom Gilt	BPS	1.000%	03/20/2015	0.281%	$ 1,400	28	9	19
United Kingdom Gilt	CBK	1.000%	03/20/2016	0.421%	1,200	26	16	10
United Kingdom Gilt	DUB	1.000%	03/20/2016	0.421%	900	19	17	2
United Kingdom Gilt	GST	1.000%	03/20/2015	0.281%	300	6	2	4
United Kingdom Gilt	GST	1.000%	03/20/2016	0.421%	2,300	49	38	11
United Kingdom Gilt	GST	1.000%	09/20/2016	0.500%	4,400	93	76	17
United Kingdom Gilt	GST	1.000%	06/20/2017	0.648%	3,300	58	58	0
United Kingdom Gilt	JPM	1.000%	03/20/2015	0.281%	1,600	31	8	23
United Kingdom Gilt	MYC	1.000%	06/20/2016	0.463%	200	4	3	1
United Kingdom Gilt	MYC	1.000%	09/20/2016	0.500%	22,100	469	205	264
United Kingdom Gilt	UAG	1.000%	06/20/2016	0.463%	2,000	43	35	8
						$ (2,587)	$ (2,901)	$ 314

Credit Default Swaps on Credit Indices - Sell Protection (2)

Index/Tranches	Counterparty	Fixed Deal Receive Rate	Maturity Date	Notional Amount (4)	Market Value (5)	Premiums Paid	Unrealized Appreciation/ (Depreciation)
CDX.EM-12 5-Year Index	BRC	5.000%	12/20/2014	$ 1,900	$ 123	$ 190	$ (67)
CDX.EM-12 5-Year Index	UAG	5.000%	12/20/2014	1,000	64	99	(35)
CDX.EM-13 5-Year Index	BRC	5.000%	06/20/2015	12,200	904	1,439	(535)
CDX.EM-13 5-Year Index	GST	5.000%	06/20/2015	400	30	50	(20)
CDX.EM-13 5-Year Index	HUS	5.000%	06/20/2015	6,100	452	678	(226)
CDX.EM-13 5-Year Index	JPM	5.000%	06/20/2015	500	36	56	(20)
CDX.EM-13 5-Year Index	MYC	5.000%	06/20/2015	8,300	615	966	(351)
CDX.EM-14 5-Year Index	BOA	5.000%	12/20/2015	1,800	145	235	(90)
CDX.EM-14 5-Year Index	HUS	5.000%	12/20/2015	800	64	104	(40)
CDX.IG-9 5-Year Index 30-100%	DUB	0.708%	12/20/2012	8,198	29	0	29
CDX.IG-9 10-Year Index 30-100%	GST	0.548%	12/20/2017	193	2	0	2
CDX.IG-9 10-Year Index 30-100%	JPM	0.553%	12/20/2017	386	3	0	3
					$ 2,467	$ 3,817	$ (1,350)

(1) If the Portfolio is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation or underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

(2) If the Portfolio is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

(3) Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate, sovereign or U.S. Treasury obligation issues as of period end serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

(4) The maximum potential amount the Portfolio could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

(5) The prices and resulting values for credit default swap agreements on credit indices serve as an indicator of the current status of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement be closed/sold as of the period end. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

Interest Rate Swaps

Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Counterparty	Notional Amount	Market Value	Premiums Paid/(Received)	Unrealized Appreciation
Pay	28-Day MXN-TIIE	5.500%	09/13/2017	BOA	MXN 99,000	$ 70	$ (29)	$ 99
Pay	28-Day MXN-TIIE	5.500%	09/13/2017	BRC	54,000	38	(16)	54
Pay	28-Day MXN-TIIE	5.500%	09/13/2017	GLM	30,000	21	(6)	27
Pay	28-Day MXN-TIIE	5.500%	09/13/2017	HUS	80,300	57	(7)	64
Pay	28-Day MXN-TIIE	5.500%	09/13/2017	MYC	30,000	21	2	19
						$ 207	$ (56)	$ 263

(k) Written options outstanding on June 30, 2012:

Interest Rate Swaptions

Description	Counterparty	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount	Premium	Market Value
Put - OTC 2-Year Interest Rate Swap	BOA	3-Month USD-LIBOR	Pay	2.250%	09/24/2012	$ 15,400	$ 129	$ 0
Put - OTC 2-Year Interest Rate Swap	CBK	3-Month USD-LIBOR	Pay	2.250%	09/24/2012	1,800	12	0
Put - OTC 2-Year Interest Rate Swap	CBK	3-Month USD-LIBOR	Pay	0.915%	11/14/2012	3,000	14	(1)
Put - OTC 2-Year Interest Rate Swap	MYC	3-Month USD-LIBOR	Pay	0.915%	11/14/2012	20,800	58	(8)
Put - OTC 2-Year Interest Rate Swap	RYL	3-Month USD-LIBOR	Pay	2.250%	09/24/2012	62,000	537	0
Put - OTC 5-Year Interest Rate Swap	CBK	3-Month USD-LIBOR	Pay	3.250%	07/16/2012	11,800	292	0
Put - OTC 5-Year Interest Rate Swap	DUB	3-Month USD-LIBOR	Pay	1.550%	08/13/2012	14,300	85	(1)
Put - OTC 5-Year Interest Rate Swap	DUB	3-Month USD-LIBOR	Pay	1.700%	08/13/2012	14,100	54	0
Put - OTC 5-Year Interest Rate Swap	DUB	3-Month USD-LIBOR	Pay	2.000%	03/18/2013	6,000	56	(11)
Put - OTC 5-Year Interest Rate Swap	FBF	3-Month USD-LIBOR	Pay	1.350%	08/13/2012	10,100	21	(2)
Put - OTC 5-Year Interest Rate Swap	RYL	3-Month USD-LIBOR	Pay	3.250%	07/16/2012	3,900	98	0
Call - OTC 5-Year Interest Rate Swap	RYL	3-Month USD-LIBOR	Receive	1.050%	08/13/2012	131,600	316	(647)
Put - OTC 5-Year Interest Rate Swap	RYL	3-Month USD-LIBOR	Pay	1.550%	08/13/2012	7,000	34	0
							$ 1,706	$ (670)

Transactions in written call and put options for the period ended June 30, 2012:

	# of Contracts	Notional Amount	Premium
Balance at 12/31/2011	170	$ 334,300	$ 2,996
Sales	0	183,100	567
Closing Buys	(170)	(215,600)	(1,857)
Expirations	0	0	0
Exercised	0	0	0
Balance at 06/30/2012	0	$ 301,800	$ 1,706

(l) Short sales outstanding on June 30, 2012:

Description	Coupon	Maturity Date	Principal Amount	Proceeds	Market Value
Freddie Mac	5.000%	08/01/2042	$ 2,000	$ 2,148	$ (2,150)

(m) Foreign currency contracts outstanding on June 30, 2012:

Settlement Month	Currency to be Delivered		Currency to be Received	Counterparty	Unrealized Appreciation	Unrealized (Depreciation)	Net Unrealized Appreciation/ (Depreciation)
07/2012	AUD	1,313	$ 1,320	JPM	$ 0	$ (22)	$ (22)
07/2012	EUR	12,212	15,983	BRC	527	0	527
07/2012		12,212	16,008	DUB	552	0	552
07/2012		15,778	20,480	FBF	543	(32)	511
07/2012		7,281	9,213	GSC	0	(2)	(2)
07/2012		5,509	6,939	HUS	0	(32)	(32)
07/2012		18,343	22,959	JPM	0	(254)	(254)
07/2012		4,682	5,869	UAG	0	(56)	(56)

Settlement Month	Currency to be Delivered		Currency to be Received		Counterparty	Unrealized Appreciation	Unrealized (Depreciation)	Net Unrealized Appreciation/ (Depreciation)
07/2012	GBP	3,807	$	5,935	BPS	$ 0	$ (27)	$ (27)
07/2012		1,507		2,378	GSC	18	0	18
07/2012		1,506		2,375	HUS	16	0	16
07/2012	IDR	2,175,000		233	BRC	2	0	2
07/2012		312,796		34	GST	0	0	0
07/2012		22,631,700		2,422	HUS	17	(4)	13
07/2012		953,905		101	UAG	0	0	0
07/2012	MXN	118,700		9,239	HUS	342	0	342
07/2012	$	47,727	EUR	38,100	BPS	616	(127)	489
07/2012		9,845		7,616	BRC	11	(217)	(206)
07/2012		1,530		1,200	CBK	0	(11)	(11)
07/2012		3,231		2,513	DUB	24	(74)	(50)
07/2012		2,498		1,898	FBF	0	(95)	(95)
07/2012		3,985		3,061	HUS	0	(111)	(111)
07/2012		4,421		3,396	JPM	0	(123)	(123)
07/2012		1,704		1,300	MSC	0	(58)	(58)
07/2012		1,656		1,300	RBC	0	(11)	(11)
07/2012		636		500	RYL	0	(4)	(4)
07/2012		4,343		3,300	UAG	0	(166)	(166)
07/2012		278	GBP	177	BRC	0	0	0
07/2012		10,366		6,643	UAG	38	0	38
07/2012		229	IDR	2,175,000	BRC	2	0	2
07/2012		33		312,796	GST	0	0	0
07/2012		2,505		22,631,700	HUS	0	(95)	(95)
07/2012		101		953,905	UAG	1	0	1
08/2012	BRL	5,669	$	2,899	BRC	95	0	95
08/2012		414		200	HUS	0	(5)	(5)
08/2012	EUR	34,700		43,317	BPS	0	(606)	(606)
08/2012	GBP	926		1,440	JPM	0	(10)	(10)
08/2012		6,643		10,366	UAG	0	(38)	(38)
08/2012	JPY	9,680,000		120,456	BRC	0	(712)	(712)
08/2012		1,310,000		16,576	CBK	175	0	175
08/2012	MXN	534,267		37,983	BRC	0	(1,846)	(1,846)
08/2012		41,894		3,001	HUS	0	(126)	(126)
08/2012		16,532		1,200	MSC	0	(34)	(34)
08/2012	$	1,421	MXN	18,625	JPM	2	(33)	(31)
08/2012		56		776	UAG	1	0	1
08/2012		4	SGD	6	UAG	0	0	0
09/2012	CAD	24,337	$	23,676	UAG	0	(186)	(186)
09/2012	EUR	11,036		13,878	UAG	0	(98)	(98)
09/2012	JPY	3,760,000		47,254	DUB	171	0	171
09/2012		263,906		3,292	JPM	2	(14)	(12)
09/2012		433,196		5,438	UAG	20	(7)	13
09/2012	MXN	453,015		32,538	MSC	0	(1,144)	(1,144)
09/2012	$	26,125	EUR	20,940	CBK	392	0	392
09/2012		244		194	JPM	1	0	1
10/2012	MXN	196,391	$	13,601	HUS	0	(974)	(974)
02/2013	CNY	1,264		200	BRC	2	0	2
02/2013		1,259		200	FBF	3	0	3
02/2013		4,421		700	UAG	8	0	8
02/2013	$	800	CNY	5,051	CBK	0	(9)	(9)
02/2013		300		1,893	GST	0	(4)	(4)
						$ 3,581	$ (7,367)	$ (3,786)

(n) Fair Value Measurements [1]

(i) The following is a summary of the fair valuations according to the inputs used as of June 30, 2012 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2012
Investments, at value				
Bank Loan Obligations	$ 0	$ 2,649	$ 0	$ 2,649
Corporate Bonds & Notes				
Banking & Finance	2,100	254,596	0	256,696
Industrials	0	113,661	0	113,661
Utilities	0	42,015	0	42,015
Municipal Bonds & Notes				
New Jersey	0	3,303	0	3,303
U.S. Government Agencies	0	1,028,320	5	1,028,325
U.S. Treasury Obligations	0	455,547	0	455,547
Mortgage-Backed Securities	0	117,279	0	117,279
Asset-Backed Securities	0	77,470	4,264	81,734
Sovereign Issues	0	83,097	0	83,097
Convertible Preferred Securities				
Banking & Finance	8,396	0	0	8,396
Industrials	0	0	6	6
Preferred Securities				
Banking & Finance	0	2,216	3,132	5,348
Short-Term Instruments				
Certificates of Deposit	0	37,216	0	37,216
Commercial Paper	0	18,298	0	18,298
Repurchase Agreements	0	2,428	0	2,428
Japan Treasury Bills	0	187,754	0	187,755
Mexico Treasury Bills	$ 0	$ 62,482	$ 33,967	$ 96,449
U.S. Treasury Bills	0	369	0	369
PIMCO Short-Term Floating NAV Portfolios	177,894	0	0	177,893
	$ 188,390	$ 2,488,700	$ 41,374	$ 2,718,464
Short Sales, at value	$ 0	$ (2,150)	$ 0	$ (2,150)
Financial Derivative Instruments [2] - Assets				
Credit Contracts	0	2,731	0	2,731
Foreign Exchange Contracts	0	3,581	0	3,581
Interest Rate Contracts	9	297	0	306
	$ 9	$ 6,609	$ 0	$ 6,618
Financial Derivative Instruments [2] - Liabilities				
Credit Contracts	0	(3,229)	0	(3,229)
Foreign Exchange Contracts	0	(7,367)	0	(7,367)
Interest Rate Contracts	0	(670)	0	(670)
	$ 0	$ (11,266)	$ 0	$ (11,266)
Totals	$ 188,399	$ 2,481,894	$ 41,374	$ 2,711,666

(ii) As of June 30, 2012, there were no transfers between Level 1 and 2 during the period.

(iii) The following is a reconciliation of the fair valuations using significant unobservable inputs (Level 3) for the Portfolio during the period ended June 30, 2012:

Category and Subcategory	Beginning Balance at 12/31/2011	Net Purchases	Net Sales	Accrued Discounts/ (Premiums)	Realized Gain/(Loss)	Net Change in Unrealized Appreciation/ (Depreciation) [3]	Transfers into Level 3	Transfers out of Level 3	Ending Balance at 06/30/2012	Net Change in Unrealized Appreciation/ (Depreciation) on Investments Held at 06/30/2012 [3]
Investments, at value										
U.S. Government Agencies	$ 6	$ 0	$ (1)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 5	$ 0
Asset-Backed Securities	0	4,400	(170)	0	0	34	0	0	4,264	34
Convertible Preferred Securities										
Industrials	2	0	0	0	0	4	0	0	6	4
Preferred Securities										
Banking & Finance	3,155	0	0	0	0	(23)	0	0	3,132	(23)
Short-Term Instruments										
Mexico Treasury Bills	0	32,985	0	16	0	966	0	0	33,967	966
Totals	$ 3,163	$ 37,385	$ (171)	$ 16	$ 0	$ 981	$ 0	$ 0	$ 41,374	$ 981

(iv) The following is a summary of significant unobservable inputs used in the fair valuations of assets and liabilities categorized within Level 3 of the fair value hierarchy:

Category and Subcategory	Ending Balance at 06/30/2012	Valuation Technique	Unobservable Inputs	Input Value(s) %
Investments, at value				
U.S. Government Agencies	$ 5	Benchmark Pricing	Base Price	102.57
Asset-Backed Securities	4,264	Third Party Vendor	Broker Quote	100.81
Convertible Preferred Securities				
Industrials	6	Other Valuation Techniques	—	—
Preferred Securities				
Banking & Finance	3,132	Benchmark Pricing	Base Price	100.18
Short-Term Instruments				
Mexico Treasury Bills	33,967	Benchmark Pricing	Base Price	9.89
Total	$ 41,374			

[1] See note 3 in the Notes to Financial Statements for more information regarding pricing inputs and valuation techniques.
[2] Financial Derivative Instruments may include open futures contracts, swap agreements, written options, and foreign currency contracts.
[3] Any difference between Net Change in Unrealized Appreciation/(Depreciation) and Net Change in Unrealized Appreciation/(Depreciation) on Investments Held at June 30, 2012 may be due to an investment no longer held or categorized as level 3 at period end.

(o) Fair Value of Financial Derivative Instruments [1]

The following is a summary of the fair valuation of the Portfolio's derivative instruments categorized by risk exposure:

Fair Values of Financial Derivative Instruments on the Statement of Assets and Liabilities as of June 30, 2012:

	Derivatives not accounted for as hedging instruments					
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
Assets:						
Unrealized appreciation on foreign currency contracts	$ 0	$ 0	$ 0	$ 3,581	$ 0	$ 3,581
Unrealized appreciation on OTC swap agreements	0	2,188	0	0	263	2,451
	$ 0	$ 2,188	$ 0	$ 3,581	$ 263	$ 6,032
Liabilities:						
Written options outstanding	$ 0	$ 0	$ 0	$ 0	$ 670	$ 670
Variation margin payable on financial derivative instruments [2]	0	173	0	0	4	177
Unrealized depreciation on foreign currency contracts	0	0	0	7,367	0	7,367
Unrealized depreciation on OTC swap agreements	0	3,229	0	0	0	3,229
	$ 0	$ 3,402	$ 0	$ 7,367	$ 674	$ 11,443

The Effect of Financial Derivative Instruments on the Statement of Operations for the Period Ended June 30, 2012:

	Derivatives not accounted for as hedging instruments					
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
Realized Gain on Derivatives Recognized as a Result from Operations:						
Net realized gain on futures contracts	$ 0	$ 0	$ 0	$ 0	$ 2,141	$ 2,141
Net realized gain on written options	0	0	0	0	1,799	1,799
Net realized gain on swaps	0	1,381	0	0	5,584	6,965
Net realized gain on foreign currency transactions	0	0	0	10,575	0	10,575
	$ 0	$ 1,381	$ 0	$ 10,575	$ 9,524	$ 21,480
Net Change in Unrealized Appreciation (Depreciation) on Derivatives Recognized as a Result of Operations:						
Net change in unrealized appreciation on futures contracts	$ 0	$ 0	$ 0	$ 0	$ 203	$ 203
Net change in unrealized (depreciation) on written options	0	0	0	0	(1,715)	(1,715)
Net change in unrealized appreciation (depreciation) on swaps	0	5,863	0	0	(3,343)	2,520
Net change in unrealized (depreciation) on translation of assets and liabilities denominated in foreign currencies	0	0	0	(7,337)	0	(7,337)
	$ 0	$ 5,863	$ 0	$ (7,337)	$ (4,855)	$ (6,329)

[1] See note 6 in the Notes to Financial Statements for additional information.

[2] Only current day's variation margin is reported within the Statement of Assets and Liabilities. The variation margin is included in the open futures cumulative appreciation of $9 and open centrally cleared swaps cumulative appreciation of $577 as reported in the Notes to Schedule of Investments.

(p) Collateral (Received)/Pledged for OTC Financial Derivative Instruments

The following is a summary by counterparty of the market value of OTC financial derivative instruments and collateral (received)/pledged as of June 30, 2012:

Counterparty	Total Market Value of OTC Derivatives	Collateral (Received)/Pledged	Net Exposures [1]
BOA	$ 645	$ (340)	$ 305
BPS	(157)	0	(157)
BRC	(1,663)	1,556	(107)
CBK	(154)	695	541
DUB	441	(280)	161
FBF	(6)	0	(6)
GLM	21	0	21
GSC	16	0	16
GST	406	(210)	196
HUS	(1,176)	369	(807)
JPM	(604)	504	(100)
MSC	(1,236)	(1,328)	(2,564)
MYC	318	(535)	(217)
RBC	(11)	0	(11)
RYL	(651)	543	(108)
UAG	(535)	(280)	(815)

[1] Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. See note 7, Principal Risks, in the Notes to Financial Statements for more information regarding credit and counterparty risks.

1. ORGANIZATION

The PIMCO Low Duration Portfolio (the "Portfolio") is a series of the PIMCO Variable Insurance Trust (the "Trust"). The Trust is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company ("Mutual Fund") organized as a Delaware business trust on October 3, 1997. The Portfolio offers three classes of shares: Institutional, Administrative and Advisor. Information presented on these financial statements pertains to the Administrative Class of the Portfolio. Certain detailed financial information for the Institutional Class and Advisor Class is provided separately and is available upon request. The Trust is designed to be used as an investment vehicle by separate accounts of insurance companies that fund variable annuity contracts and variable life insurance policies and by qualified pension and retirement plans.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Portfolio in the preparation of its financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

(a) Securities Transactions and Investment Income Securities transactions are recorded as of the trade date for financial reporting purposes. Securities purchased or sold on a when-issued or delayed-delivery basis may be settled 15 days or more after the trade date. Realized gains and losses from securities sold are recorded on the identified cost basis. Dividend income is recorded on the ex-dividend date, except certain dividends from foreign securities where the ex-dividend date may have passed, which are recorded as soon as the Portfolio is informed of the ex-dividend date. Interest income, adjusted for the accretion of discounts and amortization of premiums, is recorded on the accrual basis from settlement date. Estimated tax liabilities on certain foreign securities are recorded on an accrual basis and are reflected as components of interest income or net change in unrealized gain/loss on investments on the Statement of Operations, as appropriate. Tax liabilities realized as a result of such security sales are reflected as a component of net realized gain/loss on investments on the Statement of Operations. Paydown gains and losses on mortgage-related and other asset-backed securities are recorded as components of interest income on the Statement of Operations. Income or short-term capital gain distributions received from underlying funds are recorded as dividend income. Long-term capital gain distributions received from underlying funds are recorded as realized gains.

Debt obligations may be placed on non-accrual status and related interest income may be reduced by ceasing current accruals and writing off interest receivable when the collection of all or a portion of interest has become doubtful based on consistently applied procedures. A debt obligation is removed from non-accrual status when the issuer resumes interest payments or when collectability of interest is reasonably assured.

(b) Cash and Foreign Currency The functional and reporting currency for the Portfolio is the U.S. dollar. The market values of foreign securities, currency holdings and other assets and liabilities are translated into U.S. dollars based on the current exchange rates each business day. Fluctuations in the value of currency holdings and other assets and liabilities resulting from changes in exchange rates are recorded as unrealized foreign currency gains or losses. Realized gains or losses and unrealized appreciation or depreciation on investment securities and income and expenses are translated on the respective dates of such transactions. The effects of changes in foreign currency exchange rates on investments in securities are not segregated on the Statement of Operations from the effects of changes in market prices of those securities, but are included with the net realized and unrealized gain or loss on investment securities.

(c) Multiclass Operations Each class offered by the Portfolio has equal rights as to assets and voting privileges (except that shareholders of a class have exclusive voting rights regarding any matter relating solely to that class of shares). Income and non-class specific expenses are allocated daily to each class on the basis of the relative value of settled shares. Realized and unrealized capital gains and losses are allocated daily based on the relative net assets of each class of the respective Portfolio. Class specific expenses, where applicable, currently include supervisory and administrative and distribution and servicing fees.

(d) Dividends and Distributions to Shareholders Dividends from net investment income, if any, are declared daily and distributed to shareholders monthly. Net realized capital gains earned by the Portfolio, if any, will be distributed no less frequently than once each year.

Income dividends and capital gain distributions are determined in accordance with income tax regulations which may differ from U.S. GAAP. Differences between tax regulations and U.S. GAAP may change the fiscal year when income and capital items are recognized for tax and U.S. GAAP purposes. Examples of events that give rise to timing differences include wash sales, straddles and capital loss carryforwards. Further, the character of investment income and capital gains may be different for certain transactions under the two methods of accounting.

Examples of characterization differences include the treatment of mortgage paydowns, swaps, foreign currency transactions and contingent debt instruments. As a result, income dividends and capital gain distributions declared during a fiscal period may differ significantly from the net investment income and realized gains reported on the Portfolio's annual financial statements presented under U.S. GAAP.

Distributions classified as a tax basis return of capital, if any, are reflected on the accompanying Statements of Changes in Net Assets and have been recorded to paid in capital. In addition, other amounts have been reclassified between undistributed net investment income, accumulated undistributed net realized gains or losses and/or paid in capital to more appropriately conform financial accounting to tax characterizations of dividend distributions.

(e) New Accounting Pronouncement In April 2011, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") related to the accounting for repurchase agreements and similar agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The ASU modifies the criteria for determining effective control of transferred assets. Effective January 1, 2012, the Portfolio began accounting for the sale and simultaneous repurchase of certain securities ("sale-buybacks") as financing transactions. These transactions were previously accounted for as purchases and sales. As such, the Portfolio may have recorded additional interest expense. See Note 5 in the Notes to Financial Statements for additional details.

In May 2011, the FASB issued an ASU to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards ("IFRS"). The FASB concluded that the amendments in this ASU will improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The financial statements have been modified to provide enhanced quantitative and qualitative disclosures surrounding fair value measurements. See Fair Value Measurements in the Notes to Schedule of Investments and Note 3 in the Notes to Financial Statements for additional details.

In December 2011, the FASB issued an ASU to enhance disclosures about financial instruments and derivative instruments that are subject to offsetting ("netting") on the Statement of Assets and Liabilities. This information will enable users of the entity's financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. The ASU is effective prospectively during interim or annual periods beginning on or after January 1, 2013. At this time, management is evaluating the implications of these changes on the financial statements.

3. INVESTMENT VALUATION AND FAIR VALUE MEASUREMENTS

(a) Investment Valuation Policies The Net Asset Value ("NAV") of the Portfolio's shares is valued as of the close of regular trading (normally 4:00 p.m., Eastern time) (the "NYSE Close") on each day that the New York Stock Exchange ("NYSE") is open (each a "Business Day"). Information that becomes known to the Portfolio or its agents after the NAV has been calculated on a particular day will not generally be used to retroactively adjust the price of a security or the NAV determined earlier that day.

For purposes of calculating the NAV, portfolio securities and other financial derivative instruments are valued on each Business Day using valuation methods as adopted by the Board of Trustees (the "Board") of the Trust. Where market quotes are readily available, fair market value is generally determined on the basis of last reported sales prices, or if no sales are reported, based on quotes obtained from a quotation reporting system, established market makers, or pricing services. Where market quotes are not readily available, portfolio securities and other financial derivative instruments are valued at fair value, as determined in good faith by the Board, its Valuation Committee, or the investment adviser (the "Adviser") pursuant to instructions from the Board or its Valuation Committee.

Market quotes are considered not readily available in circumstances where there is an absence of current or reliable market-based data (e.g., trade information, bid/ask information, or broker quotes), including where events occur after the close of the relevant market, but prior to the NYSE Close, that materially affect the values of the Portfolio's securities or financial derivative instruments. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which securities trade do not open for trading for the entire day and no other market prices are available. The Board has delegated to the Adviser, Pacific Investment Management Company LLC ("PIMCO"), the responsibility for monitoring significant events that may materially affect the values of the Portfolio's securities or financial derivative instruments and for determining whether the value of the applicable securities or financial derivative instruments should be re-evaluated in light of such significant events.

The Board has adopted methods for valuing securities and other financial derivative instruments in circumstances where market quotes are not readily available, and has delegated the responsibility for applying the valuation methods to PIMCO. The Valuation Committee has been established by the Board to oversee the implementation of the Portfolio's valuation methods and to make fair value determinations on behalf of the Board as instructed. The Board has adopted methods for valuing securities and other financial derivative instruments that may require fair valuation under particular circumstances. The Adviser monitors the continual appropriateness of methods applied and determines if adjustments should be made in light of market changes, events affecting the issuer, or other factors. If the Adviser determines that a valuation method may no longer be appropriate, another valuation method may be selected, or the Valuation Committee will take any appropriate action in accordance with procedures set forth by the Board. The Board shall review the appropriateness of the valuation methods from time to time and these methods may be amended or supplemented from time to time by the Valuation Committee.

For instances in which daily market quotes are not readily available, investments may be valued, pursuant to guidelines established by the Board, with reference to other securities or indices. In the event that the security or asset cannot be valued pursuant to the established guidelines, the value of the security or asset will be determined in good faith by the Valuation Committee of the Board, generally based upon recommendations provided by PIMCO. These methods may require subjective determinations about the value of a security. While the Trust's policy is intended to result in a calculation of the Portfolio's NAV that fairly reflects security values as of the time of pricing, the Trust cannot guarantee that values determined by the Board or persons acting at their direction would accurately reflect the price that the Portfolio could obtain for a security if it were to dispose of that security as of the time of pricing (for instance, in a forced or distressed sale). The prices used by the Portfolio may differ from the value that would be realized if the securities were sold.

(b) Fair Value Hierarchy U.S. GAAP defines fair market value as the price that the Portfolio would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. It establishes a fair value hierarchy that prioritizes inputs to valuation methods and requires disclosure of the fair value hierarchy, separately for each major category of assets and liabilities, that segregates fair value measurements into levels (Level 1, 2, and 3). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Levels 1, 2, and 3 of the fair value hierarchy are defined as follows:

- Level 1—Inputs using (unadjusted) quoted prices in active markets or exchanges for identical assets and liabilities.
- Level 2—Significant other observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market corroborated inputs.
- Level 3—Significant unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available, which may include assumptions made by the Board or persons acting at their direction that are used in determining the fair value of investments.

Assets categorized as Level 1 or 2 as of period end may have been transferred between Levels 1 and 2 since the prior period due to changes in the valuation method utilized in valuing the investments. Transfers from Level 1 to Level 2 are typically a result of a change, in the normal course of business, from the use of the trade price on the initial purchase date (Level 1) to valuation methods used by third-party pricing services (Level 2). Transfers from Level 2 to Level 1 are typically a result of exchange traded products for which quoted prices from an active market were not available (Level 2) and have become available (Level 1). In accordance with the requirements of U.S. GAAP, the amounts of such transfers between Levels 1 and 2, if any, are disclosed in the Notes to the Schedule of Investments for the Portfolio.

For fair valuations using significant unobservable inputs, U.S. GAAP requires a reconciliation of the beginning to ending balances for reported fair values that presents changes attributable to total realized and unrealized gains or losses, purchases and sales, and transfers in or out of the Level 3 category during the period. The end of period timing recognition is used for the significant transfers between Levels of a Portfolio's assets and liabilities. Additionally, U.S. GAAP requires quantitative information regarding the significant unobservable inputs used in the determination of fair value of assets categorized as Level 3 in the fair value hierarchy. In accordance with the requirements of U.S. GAAP, a fair value hierarchy, Level 3 reconciliation, and details of significant unobservable inputs, if any, have been included in the Notes to the Schedule of Investments for the Portfolio.

(c) Valuation Techniques and the Fair Value Hierarchy
Level 1 and Level 2 trading assets and trading liabilities, at fair market value The valuation methods (or "techniques") and significant inputs used in determining the fair market values of portfolio securities or financial derivative instruments categorized as Level 1 and Level 2 of the fair value hierarchy are as follows:

Fixed income securities including corporate, convertible and municipal bonds and notes, U.S. government agencies, U.S. treasury obligations, sovereign issues, bank loans, convertible preferred securities and non-U.S. bonds are normally valued by pricing service providers that use broker-dealer quotations, reported trades or valuation estimates from their internal pricing models. The service providers' internal models use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar assets. Securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Fixed income securities purchased on a delayed-delivery basis or as a repurchase commitment in a sale-buy back transaction are marked to market daily until settlement at the forward settlement date and are categorized as Level 2 of the fair value hierarchy.

Mortgage-related and asset-backed securities are usually issued as separate tranches, or classes, of securities within each deal. These securities are also normally valued by pricing service providers that use broker-dealer quotations or valuation estimates from their internal pricing models. The pricing models for these securities usually consider tranche-level attributes, current market data, estimated cash flows and market-based yield spreads for each tranche, and incorporate deal collateral performance, as available. Mortgage-related and asset-backed securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Common stocks, exchange-traded funds and financial derivative instruments, such as futures contracts or options contracts that are traded on a national securities exchange, are stated at the last reported sale or settlement price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized as Level 1 of the fair value hierarchy.

Investments initially valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from pricing service providers. As a result, the NAV of the Portfolio's shares may be affected by changes in the value of currencies in relation to the U.S. dollar. The value of securities traded in markets outside the United States or denominated in currencies other than the U.S. dollar may be affected significantly on a day that the NYSE is closed and the NAV may change on days when an investor is not able to purchase, redeem or exchange shares. Valuation adjustments may be applied to certain securities that are solely traded on a foreign exchange to account for the market movement between the close of the foreign market and the NYSE Close. These securities are valued using pricing service providers that consider the correlation of the trading patterns of the foreign security to the intraday trading in the U.S. markets for investments. Securities using these valuation adjustments are categorized as Level 2 of the fair value hierarchy. Preferred securities and other equities traded on inactive markets or valued by reference to similar instruments are also categorized as Level 2 of the fair value hierarchy.

Investments in registered open-end investment management companies will be valued based upon the NAVs of such investments and are categorized as Level 1 of the fair value hierarchy. Investments in unregistered open-end management investment companies will be calculated based upon the NAVs of such investments and are considered Level 1 provided that the NAVs are observable, calculated daily and are the value at which both purchases and sales will be conducted. Investments in privately held investment funds with significant restrictions on redemptions where the inputs of NAVs are observable will be valued based upon the NAVs of such investments and are categorized as Level 2 of the fair value hierarchy.

Short-term investments having a maturity of 60 days or less are generally valued at amortized cost which approximates fair market value. These investments are categorized as Level 2 of the fair value hierarchy.

Over-the-counter financial derivative instruments, such as foreign currency contracts, options contracts, or swap agreements, derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. These contracts are normally valued on the basis of broker dealer quotations or by pricing service providers. Depending on the product and the terms of the transaction, the value of financial derivative instruments can be estimated by a pricing service provider using a series of techniques, including simulation pricing models. The pricing models use inputs that are observed from actively quoted markets such as issuer details, indices, spreads, interest rates, yield curves, dividends and exchange rates. Financial derivative instruments that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Centrally cleared swaps listed or traded on a multilateral or trade facility platform, such as a registered exchange, are valued at the daily settlement price determined by the respective exchange. For centrally cleared credit default swaps the clearing facility requires its members to provide actionable levels across complete term structures. These levels along with external third party prices are used to produce daily settlement prices. These securities are categorized as Level 2 of the fair value hierarchy. Centrally cleared interest rate swaps are valued using a pricing model that references the underlying rates including the overnight index swap rate and London Interbank Offered Rate ("LIBOR") forward rate to produce the daily settlement price. These securities are categorized as Level 2 of the fair value hierarchy.

Level 3 trading assets and trading liabilities, at fair value When a fair valuation method is applied by PIMCO that uses significant unobservable inputs, securities will be priced by a method that the Board or persons acting at their direction believe accurately reflects fair value and are categorized as Level 3 of the fair value hierarchy. The valuation techniques and significant inputs used in determining the fair values of portfolio assets and financial derivative instruments categorized as Level 3 of the fair value hierarchy are as follows:

Benchmark Pricing procedures set the base price of a fixed-income security and subsequently adjust the price proportionally to market value changes of a pre-determined security deemed to be comparable in duration, generally a U.S. Treasury or sovereign note based on country of issuance. The base price may be a broker-dealer quote, transaction price, or an internal value as derived by analysis of market data. The base price of the security may be reset on a periodic basis based on the availability of market data and procedures approved by the Valuation Committee. Significant changes in the unobservable inputs of the benchmark pricing process (the base price) would result in direct and proportional changes in the fair value of the security. The validity of the fair value is reviewed by PIMCO on a periodic basis and may be amended as the availability of market data indicates a material change.

If third party evaluated vendor pricing is neither available nor deemed to be indicative of fair value, the Adviser may elect to obtain indicative market quotations ("broker quotes") directly from the broker-dealer or passed through from a third party vendor. In the event that the source of fair value is from a single sourced broker quote, these securities are categorized as Level 3 of the fair value hierarchy. Indicative market quotations are typically received from established market participants. Although independently received, the Adviser does not have the transparency to view the underlying inputs which support the market quotation. Significant changes in the broker quote would have direct and proportional changes in the fair value of the security.

4. SECURITIES AND OTHER INVESTMENTS

(a) Inflation-Indexed Bonds The Portfolio may invest in inflation-indexed bonds. Inflation-indexed bonds are fixed-income securities whose principal value is periodically adjusted to the rate of inflation. The interest rate on these bonds is generally fixed at issuance at a rate lower than typical bonds. Over the life of an inflation-indexed bond, however, interest will be paid based on a principal value which is adjusted for inflation. Any increase or decrease in the principal amount of an inflation-indexed bond will be included as interest income on the Statement of Operations, even though investors do not receive their principal until maturity.

(b) Loan Participations and Assignments The Portfolio may invest in direct debt instruments which are interests in amounts owed to lenders or lending syndicates by corporate, governmental, or other borrowers. The Portfolio's investments in loans may be in the form of participations in loans or assignments of all or a portion of loans from third parties. A loan is often administered by a bank or other financial institution (the "lender") that acts as agent for all holders. The agent administers the terms of the loan, as specified in the loan agreement. The Portfolio may invest in multiple series or tranches of a loan, which may have varying terms and carry different associated risks. The Portfolio generally has no right to enforce compliance with the terms of the loan agreement with the borrower. As a result, the Portfolio may be subject to the credit risk of both the borrower and the lender that is selling the loan agreement. When the Portfolio purchases assignments from lenders it acquires direct rights against the borrower of the loan. The Portfolio may also enter into unfunded loan commitments, which are contractual obligations for future funding. Unfunded loan commitments may include revolving credit facilities, which may obligate the Portfolio to supply additional cash to the borrower on demand. Unfunded loan commitments represent a future obligation in full, even though a percentage of the notional loan amounts may not be utilized by the borrower. When investing in a loan participation, the Portfolio has the right to receive payments of principal, interest and any fees to which it is entitled only from the lender selling the loan agreement and only upon receipt of payments by the lender from the borrower. The Portfolio may receive a commitment fee based on the undrawn portion of the underlying line of credit portion of a floating rate loan. In certain circumstances, the Portfolio may receive a penalty fee upon the prepayment of a floating rate loan by a borrower. Fees earned or paid are recorded as a component of interest income or interest expense, respectively, on the Statement of Operations. As of June 30, 2012, the Portfolio had no unfunded loan commitments.

(c) Mortgage-Related and Other Asset-Backed Securities The Portfolio may invest in mortgage-related and other asset-backed securities. These securities include mortgage pass-through securities, collateralized mortgage obligations, commercial mortgage-backed securities, asset-backed securities, collateralized debt obligations and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. Mortgage-related and other asset-backed securities are interests in pools of loans or other receivables. Mortgage-related securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans. These securities provide a monthly payment which consists of both interest and principal payments. Interest payments may be determined by fixed or adjustable rates. The rate of prepayments on underlying mortgages will affect the price and volatility of a mortgage-related security, and may have the effect of shortening or extending the effective duration of the security relative to what was anticipated at the time of purchase. The timely payment of principal and interest of certain mortgage-related securities is guaranteed with the full faith and credit of the U.S. Government. Pools created and guaranteed by non-governmental issuers, including government-sponsored corporations, may be supported by various forms of insurance or guarantees, but there can be no assurance that the private insurers or guarantors can meet their obligations under the insurance policies or guarantee arrangements.

Collateralized Mortgage Obligations ("CMOs") are debt obligations of a legal entity that are collateralized by mortgages and divided into classes. CMOs are structured into multiple classes, often referred to as "tranches," with each class bearing a different stated maturity and entitled to a different schedule for payments of principal and interest, including prepayments. Commercial Mortgage-Backed Securities ("CMBS") include securities that reflect an interest in, and are secured by, mortgage loans on commercial real property. Many of the risks of investing in CMBS reflect the risks of investing in the real estate securing the underlying mortgage loans. These risks reflect the effects of local and other economic conditions on real estate markets, the ability of tenants to make loan payments, and the ability of a property to attract and retain tenants. CMOs and CMBS may be less liquid and may exhibit greater price volatility than other types of mortgage-related or asset-backed securities.

Collateralized Debt Obligations ("CDOs") include Collateralized Bond Obligations ("CBOs"), Collateralized Loan Obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust which is backed by a diversified pool of high risk, below investment grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans. The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO in which the Portfolio invests. CDOs carry additional risks including, but not limited to, (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments, (ii) the collateral may decline in value or default, (iii) the Portfolio may invest in CDOs that are subordinate to other classes, and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

(d) U.S. Government Agencies or Government-Sponsored Enterprises The Portfolio may invest in securities of U.S. Government agencies or government-sponsored enterprises. U.S. Government securities are obligations of and, in certain cases, guaranteed by, the U.S. Government, its agencies or instrumentalities. Some U.S. Government securities, such as Treasury bills, notes and bonds, and securities guaranteed by the Government National Mortgage Association ("GNMA" or "Ginnie Mae"), are supported by the full faith and credit of the U.S. Government; others, such as those of the Federal Home Loan Banks, are supported by the right of the issuer to borrow from the U.S. Department of the Treasury (the "U.S. Treasury"); others, such as those of the Federal National Mortgage Association ("FNMA" or "Fannie Mae"), are supported by the discretionary authority of the U.S. Government to purchase the agency's obligations. U.S. Government securities may include zero coupon securities, which do not distribute interest on a current basis and tend to be subject to greater risk than interest-paying securities of similar maturities.

Government-related guarantors (i.e., not backed by the full faith and credit of the U.S. Government) include FNMA and the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac"). FNMA is a government-sponsored corporation. FNMA purchases conventional (i.e., not insured or guaranteed by any government agency) residential mortgages from a list of approved seller/servicers which include state and federally chartered savings and loan associations, mutual savings banks, commercial banks and credit unions and mortgage bankers. Pass-through securities issued by FNMA are guaranteed as to timely payment of principal and interest by FNMA, but are not backed by the full faith and credit of the U.S. Government. FHLMC issues Participation Certificates ("PCs"), which are pass-through securities, each representing an undivided interest in a pool of residential mortgages. FHLMC guarantees the timely payment of interest and ultimate collection of principal, but PCs are not backed by the full faith and credit of the U.S. Government.

(e) When-Issued Transactions The Portfolio may purchase or sell securities on a when-issued basis. These transactions are made conditionally because a security, although authorized, has not yet been issued in the market. A commitment by the Portfolio is made regarding these transactions to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period. The Portfolio may sell when-issued securities before they are delivered, which may result in a realized gain or loss.

5. BORROWINGS AND OTHER FINANCING TRANSACTIONS

The following disclosures contain information on the Portfolio's ability to lend or borrow cash or securities to the extent permitted under the Act, which may be viewed as borrowing or financing transactions by the Portfolio. The location and fair value amounts of these instruments are described below. For a detailed description of credit and counterparty risks that can be associated with borrowings and other financing transactions, please see Note 7, Principal Risks.

(a) Repurchase Agreements The Portfolio may engage in repurchase agreements. Under the terms of a typical repurchase agreement, the Portfolio takes possession of an underlying debt obligation (collateral) subject to an obligation of the seller to repurchase, and the Portfolio to resell, the obligation at an agreed-upon price and time. The underlying securities for all repurchase agreements are held in safekeeping at the

Portfolio's custodian or designated subcustodians under tri-party repurchase agreements. The market value of the collateral must be equal to or exceed the total amount of the repurchase obligations, including interest. Securities purchased under repurchase agreements are reflected as an asset on the Statement of Assets and Liabilities. Interest earned is recorded as a component of interest income on the Statement of Operations. In periods of increased demand for collateral, the Portfolio may pay a fee for receipt of collateral, which may result in interest expense to the Portfolio.

(b) Reverse Repurchase Agreements The Portfolio may enter into reverse repurchase agreements. In a reverse repurchase agreement, the Portfolio delivers a security in exchange for cash to a financial institution, the counterparty, with a simultaneous agreement to repurchase the same or substantially the same security at an agreed-upon price and date. The Portfolio is entitled to receive principal and interest payments, if any, made on the security delivered to the counterparty during the term of the agreement. Cash received in exchange for securities delivered plus accrued interest payments to be made by the Portfolio to counterparties are reflected as a liability on the Statement of Assets and Liabilities. Interest payments made by the Portfolio to counterparties are recorded as a component of interest expense on the Statement of Operations. In periods of increased demand for the security, the Portfolio may receive a fee for use of the security by the counterparty, which may result in interest income to the Portfolio. The Portfolio will segregate assets determined to be liquid by PIMCO or otherwise cover its obligations under reverse repurchase agreements.

(c) Sale-Buybacks The Portfolio may enter into financing transactions referred to as 'sale-buybacks'. A sale-buyback transaction consists of a sale of a security by the Portfolio to a financial institution, the counterparty, with a simultaneous agreement to repurchase the same or substantially the same security at an agreed-upon price and date. The Portfolio is not entitled to receive principal and interest payments, if any, made on the security sold to the counterparty during the term of the agreement. The agreed-upon proceeds for securities to be repurchased by the Portfolio are reflected as a liability on the Statement of Assets and Liabilities. The Portfolio will recognize net income represented by the price differential between the price received for the transferred security and the agreed-upon repurchase price. This is commonly referred to as the 'price drop'. A price drop consists of (i) the foregone interest and inflationary income adjustments, if any, the Portfolio would have otherwise received had the security not been sold and (ii) the negotiated financing terms between the Portfolio and counterparty. Foregone interest and inflationary income adjustments, if any, are recorded as components of interest income on the Statement of Operations. Interest payments based upon negotiated financing terms made by the Portfolio to counterparties are recorded as a component of interest expense on the Statement of Operations. In periods of increased demand for the security, the Portfolio may receive a fee for use of the security by the counterparty, which may result in interest income to the Portfolio. The Portfolio will segregate assets determined to be liquid by PIMCO or otherwise cover its obligations under sale-buyback transactions.

(d) Short Sales The Portfolio may enter into short sales transactions. A short sale is a transaction in which the Portfolio sells securities it may not own in anticipation of a decline in the fair market value of the securities. Securities sold in short sale transactions and the interest payable on such securities, if any, are reflected as a liability on the Statement of Assets and Liabilities. The Portfolio is obligated to deliver securities at the trade price at the time the short position is covered. Possible losses from short sales may be unlimited, whereas losses from purchases cannot exceed the total amount invested.

6. FINANCIAL DERIVATIVE INSTRUMENTS

The following disclosures contain information on how and why the Portfolio uses financial derivative instruments, the credit-risk-related contingent features in certain financial derivative instruments, and how financial derivative instruments affect the Portfolio's financial position, results of operations and cash flows. The location and fair value amounts of these instruments on the Statement of Assets and Liabilities and the realized and changes in unrealized gains and losses on the Statement of Operations, each categorized by type of financial derivative contract and related risk exposure, are included in a table in the Notes to Schedule of Investments. The financial derivative instruments outstanding as of period end as disclosed in the Notes to Schedule of Investments and the amounts of realized and changes in unrealized gains and losses on financial derivative instruments during the period as disclosed on the Statement of Operations serve as indicators of the volume of financial derivative activity for the Portfolio.

(a) Foreign Currency Contracts The Portfolio may enter into foreign currency contracts in connection with settling planned purchases or sales of securities, to hedge the currency exposure associated with some or all of the Portfolio's securities or as a part of an investment strategy. A foreign currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The market value of a foreign currency contract fluctuates with changes in foreign currency exchange rates. Foreign currency contracts are marked to market daily and the change in value is recorded by the Portfolio as an unrealized gain or loss. Realized gains or losses equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed are recorded upon delivery or receipt of the currency. These contracts may involve market risk in excess of the unrealized gain or loss reflected on the Statement of

Assets and Liabilities. In addition, the Portfolio could be exposed to risk if the counterparties are unable to meet the terms of the contracts or if the value of the currency changes unfavorably to the U.S. dollar. In connection with these contracts, securities may be identified as collateral in accordance with the terms of the respective contracts.

(b) Futures Contracts The Portfolio may enter into futures contracts. The Portfolio may use futures contracts to manage its exposure to the securities markets or to movements in interest rates and currency values. The primary risks associated with the use of futures contracts are the imperfect correlation between the change in market value of the securities held by the Portfolio and the prices of futures contracts and the possibility of an illiquid market. Futures contracts are valued based upon their quoted daily settlement prices. Upon entering into a futures contract, the Portfolio is required to deposit with its futures broker, an amount of cash, or U.S. Government and Agency Obligations, or select sovereign debt, in accordance with the initial margin requirements of the broker or exchange. Futures contracts are marked to market daily and an appropriate payable or receivable for the change in value ("variation margin") is recorded by the Portfolio. Gains or losses are recognized but not considered realized until the contracts expire or are closed. Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin disclosed on the Statement of Assets and Liabilities.

(c) Options Contracts The Portfolio may write call and put options on securities and financial derivative instruments it owns or in which it may invest. Writing put options tends to increase the Portfolio's exposure to the underlying instrument. Writing call options tends to decrease the Portfolio's exposure to the underlying instrument. When the Portfolio writes a call or put, an amount equal to the premium received is recorded as a liability and subsequently marked to market to reflect the current value of the option written. These liabilities are reflected as written options outstanding on the Statement of Assets and Liabilities. Premiums received from writing options which expire are treated as realized gains. Premiums received from writing options which are exercised or closed are added to the proceeds or offset against amounts paid on the underlying futures, swap, security or currency transaction to determine the realized gain or loss. Certain options may be written with premiums to be determined on a future date. The premiums for these options are based upon implied volatility parameters at specified terms. The Portfolio as a writer of an option has no control over whether the underlying instrument may be sold (call) or purchased (put) and as a result bears the market risk of an unfavorable change in the price of the instrument underlying the written option. There is the risk the Portfolio may not be able to enter into a closing transaction because of an illiquid market.

The Portfolio may also purchase put and call options. Purchasing call options tends to increase the Portfolio's exposure to the underlying instrument. Purchasing put options tends to decrease the Portfolio's exposure to the underlying instrument. The Portfolio pays a premium which is included on the Portfolio's Statement of Assets and Liabilities as an investment and subsequently marked to market to reflect the current value of the option. Premiums paid for purchasing options which expire are treated as realized losses. Certain options may be purchased with premiums to be determined on a future date. The premiums for these options are based upon implied volatility parameters at specified terms. The risk associated with purchasing put and call options is limited to the premium paid. Premiums paid for purchasing options which are exercised or closed are added to the amounts paid or offset against the proceeds on the underlying investment transaction to determine the realized gain or loss when the underlying transaction is sold.

Interest Rate Swaptions The Portfolio may write or purchase interest rate swaption agreements which are options to enter into a pre-defined swap agreement by some specified date in the future. The writer of the swaption becomes the counterparty to the swap if the buyer exercises. The interest rate swaption agreement will specify whether the buyer of the swaption will be a fixed-rate receiver or a fixed-rate payer upon exercise.

(d) Swap Agreements The Portfolio may invest in swap agreements. Swap agreements are bilaterally negotiated agreements between the Portfolio and a counterparty to exchange or swap investment cash flows, assets, foreign currencies or market-linked returns at specified, future intervals. Swap agreements are privately negotiated in the over-the-counter market ("OTC swaps") or may be executed in a multilateral or other trade facility platform, such as a registered exchange ("centrally cleared swaps"). The Portfolio may enter into credit default, interest rate and other forms of swap agreements to manage its exposure to credit, currency, interest rate, commodity, equity and inflation risk. In connection with these agreements, securities or cash may be identified as collateral or margin in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default or bankruptcy/insolvency.

Swaps are marked to market daily based upon values from third party vendors, which may include a registered exchange, or quotations from market makers to the extent available. In the event that market quotes are not readily available and the swap cannot be valued pursuant to one of the valuation methods, the value of the swap will be determined in good faith by the Valuation Committee of the Board of Trustees, generally based upon recommendations provided by PIMCO. Changes in market value, if any, are reflected as a component of net changes in unrealized appreciation/(depreciation) on the Statement of Operations. Daily changes in valuation of centrally cleared swaps, if any, are recorded as a receivable or payable for the change in value as appropriate ("variation margin") on the Statement of Assets and Liabilities. OTC swap payments received or made at the beginning of the measurement period are reflected as such on the Statement of Assets and Liabilities and represent premiums paid or received upon entering into the swap agreement to compensate for differences between the stated terms of the swap agreement and prevailing market conditions (credit spreads, currency exchange rates, interest rates, and other relevant factors). These upfront premiums are recorded as realized gains or losses on the Statement of Operations upon termination or maturity of the swap. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss on the Statement of Operations. Net periodic payments received or paid by the Portfolio are included as part of realized gains or losses on the Statement of Operations.

Entering into these agreements involves, to varying degrees, elements of interest, credit, market and documentation risk in excess of the amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of contractual terms in the agreements and that there may be unfavorable changes in interest rates.

The Portfolio's maximum risk of loss from counterparty credit risk is the discounted net value of the cash flows to be received from the counterparty over the contract's remaining life, to the extent that amount is positive. The risk is mitigated by having a master netting arrangement between the Portfolio and the counterparty and by the posting of collateral to the Portfolio to cover the Portfolio's exposure to the counterparty.

Credit Default Swap Agreements Credit default swap agreements involve one party making a stream of payments (referred to as the buyer of protection) to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other credit event for the referenced entity, obligation or index. As a seller of protection on credit default swap agreements, the Portfolio will generally receive from the buyer of protection a fixed rate of income throughout the term of the swap provided that there is no credit event. As the seller, the Portfolio would effectively add leverage to its portfolio because, in addition to its total net assets, the Portfolio would be subject to investment exposure on the notional amount of the swap.

If the Portfolio is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. If the Portfolio is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. Recovery values are estimated by market makers considering either industry standard recovery rates or entity specific factors and considerations until a credit event occurs. If a credit event has occurred, the recovery value is determined by a facilitated auction whereby a minimum number of allowable broker bids, together with a specified valuation method, are used to calculate the settlement value.

Credit default swap agreements on corporate or sovereign issues involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default or other credit event. If a credit event occurs and cash settlement is not elected, a variety of other deliverable obligations may be delivered in lieu of the specific referenced obligation. The ability to deliver other obligations may result in a cheapest-to-deliver option (the buyer of protection's right to choose the deliverable obligation with the lowest value following a credit event). The Portfolio may use credit default swaps on corporate or sovereign issues to provide a measure of protection against defaults of the issuers (i.e., to reduce risk where the Portfolio owns or has exposure to the referenced obligation) or to take an active long or short position with respect to the likelihood of a particular issuer's default.

Credit default swap agreements on credit indices involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising the credit index. A credit index is a basket of credit instruments or exposures designed to be representative of some part of the credit market as a whole. These indices are made up of reference credits that are judged by a poll of dealers to be the most liquid entities in the credit default swap market based on the sector of the index. Components of the indices may include, but are not limited to, investment grade securities, high yield securities, asset-backed securities, emerging markets, and/or various credit ratings within each sector. Credit indices are traded using credit default swaps with standardized terms including a fixed spread and standard maturity dates. An index credit default swap references all the names in the index, and if there is a default, the credit event is settled based on that name's weight in the index. The composition of the indices changes periodically, usually every six months, and for most indices, each name has an equal weight in the index. The Portfolio may use credit default swaps on credit indices to hedge a portfolio of credit default swaps or bonds, which is less expensive than it would be to buy many credit default swaps to achieve a similar effect. Credit default swaps on indices are benchmarks for protecting investors owning bonds against default, and traders use them to speculate on changes in credit quality.

Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate or sovereign issues as of period end are disclosed in the Notes to the Schedule of Investments and serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values serve as the indicator of the current status of the payment/performance risk. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

The maximum potential amount of future payments (undiscounted) that the Portfolio as a seller of protection could be required to make under a credit default swap agreement would be an amount equal to the notional amount of the agreement. Notional amounts of each individual credit default swap agreement outstanding as of June 30, 2012 for which the Portfolio is the seller of protection are disclosed in the Notes to the Schedule of Investments. These potential amounts would be partially offset by any recovery values of the respective referenced obligations, upfront payments received upon entering into the agreement, or net amounts received from the settlement of buy protection credit default swap agreements entered into by the Portfolio for the same referenced entity or entities.

Interest Rate Swap Agreements The Portfolio is subject to interest rate risk exposure in the normal course of pursuing its investment objectives. Because the Portfolio holds fixed rate bonds, the value of these bonds may decrease if interest rates rise. To help hedge against this risk and to maintain its ability to generate income at prevailing market rates, the Portfolio may enter into interest rate swap agreements. Interest rate swap agreements involve the exchange by the Portfolio with another party for their respective commitment to pay or receive interest on the notional amount of principal. Certain forms of interest rate swap agreements may include: (i) interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or "cap", (ii) interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or "floor", (iii) interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels, (iv) callable interest rate swaps, under which the counterparty may terminate the swap transaction in whole at zero cost at a predetermined date and time prior to the maturity date, (v) spreadlocks, which allow the interest rate swap users to lock in the forward differential (or spread) between the interest rate swap rate and a specified benchmark, or (vi) basis swaps, under which two parties can exchange variable interest rates based on different money markets.

7. PRINCIPAL RISKS

In the normal course of business the Portfolio trades financial instruments and enters into financial transactions where risk of potential loss exists due to changes in the market (market risk), or failure or inability of the other party to a transaction to perform (credit and counterparty risk). See below for a detailed description of select principal risks. For a list of potential risks the Portfolio may be subject to, please see the Important Information About the Portfolio.

Market Risks The Portfolio's investments in financial derivatives and other financial instruments expose the Portfolio to various risks such as, but not limited to, interest rate, foreign currency and equity risks.

Interest rate risk is the risk that fixed income securities will decline in value because of changes in interest rates. As nominal interest rates rise, the value of certain fixed income securities held by the Portfolio is likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Duration is useful primarily as a measure of the sensitivity of a fixed income's market price to interest rate (i.e. yield) movements.

If the Portfolio invests directly in foreign currencies or in securities that trade in, and receive revenues in, foreign currencies, or in financial derivatives that provide exposure to foreign currencies, it will be subject to the risk that those currencies will decline in value relative to the base currency of the Portfolio, or, in the case of hedging positions, that the Portfolio's base currency will decline in value relative to the currency being hedged. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the United States or abroad. As a result, the Portfolio's investments in foreign currency denominated securities may reduce the returns of the Portfolio.

The market values of equities, such as common stocks and preferred securities or equity related investments such as futures and options, may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities and equity related investments generally have greater market price volatility than fixed income securities.

Credit and Counterparty Risks The Portfolio will be exposed to credit risk on parties with whom it trades and will also bear the risk of settlement default. The Portfolio minimizes concentrations of credit risk by undertaking transactions with a large number of customers and counterparties on recognized and reputable exchanges. The Portfolio could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a financial derivatives contract, repurchase agreement or a loan of portfolio securities, is unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings.

Similar to credit risk, the Portfolio may be exposed to counterparty risk, or the risk that an institution or other entity with which the Portfolio has unsettled or open transactions will default. Financial assets, which potentially expose the Portfolio to counterparty risk, consist principally of cash due from counterparties and investments. PIMCO, as the investment adviser, minimizes counterparty risks to the Portfolio by performing extensive reviews of each counterparty and obtaining approval from the PIMCO Counterparty Risk Committee prior to entering into transactions with a third party. Furthermore, to the extent that unpaid amounts owed to the Portfolio exceed a predetermined threshold agreed to with the counterparty, such counterparty shall advance collateral to the Portfolio in the form of cash or cash equivalents equal in value to the unpaid amount owed to the Portfolio. The Portfolio may invest such collateral in securities or other instruments and will typically pay interest to the counterparty on the collateral received. If the unpaid amount owed to the Portfolio subsequently decreases, the Portfolio would be required to return to the counterparty all or a portion of the collateral previously advanced to the Portfolio.

All transactions in listed securities are settled/paid for upon delivery using approved counterparties. The risk of default is considered minimal, as delivery of securities sold is only made once the Portfolio has received payment. Payment is made on a purchase once the securities have been delivered by the counterparty. The trade will fail if either party fails to meet its obligation.

The Portfolio is subject to various Master Agreements, which govern the terms of certain transactions with select counterparties. These Master Agreements reduce the counterparty risk associated with relevant transactions by specifying credit protection mechanisms and providing standardization that improves legal certainty. Since different types of forward and OTC financial derivative transactions have different mechanics and are sometimes traded out of different legal entities of a particular counterparty organization, each type of transaction may be covered by a different Master Agreement, resulting in the need for multiple agreements with a single counterparty. As the Master Agreements are specific to unique operations of different asset types, they allow the Portfolio to close out and net its total exposure to a counterparty in the event of a default with respect to all the transactions governed under a single agreement with a counterparty.

Master Agreements can also help limit counterparty risk by specifying collateral posting arrangements at pre-arranged exposure levels. Under the Master Agreements, collateral is routinely transferred if the total net exposure to certain transactions (net of existing collateral already in place) governed under the relevant master agreement with a counterparty in a given account exceeds a specified threshold, which typically ranges from zero to $250,000 depending on the counterparty and the type of Master Agreement. United States Treasury Bills and U.S. dollar cash are generally the preferred forms of collateral, although other forms of AAA rated paper may be used. The Portfolio's overall exposure to counterparty risk can change substantially within a short period, as it is affected by each transaction subject to the relevant Master Agreement.

Master Repurchase Agreements ("Master Repo Agreements") govern transactions between the Portfolio and select counterparties. The Master Repo Agreements maintain provisions for, among other things, initiation, income payments, events of default, and maintenance of collateral for Repurchase and Reverse Repurchase Agreements.

Master Securities Forward Transaction Agreements ("Master Forward Agreements") govern the considerations and factors surrounding the settlement of certain forward settling transactions, such as delayed-delivery or sale-buyback financing transactions by and between the Portfolio and select counterparties. The Master Forward Agreements maintain provisions for, among other things, initiation and confirmation, payment and transfer, events of default, termination, and maintenance of collateral.

International Swaps and Derivatives Association, Inc. Master Agreements ("ISDA Master Agreements") govern OTC financial derivative transactions entered into by the Portfolio and select counterparties. The ISDA Master Agreements maintain provisions for general obligations, representations, agreements, collateral and events of default or termination. Events of termination include conditions that may entitle counterparties to elect to terminate early and cause settlement of all outstanding transactions under the applicable ISDA Master Agreement. Any election to terminate early could be material to the financial statements. The market value of OTC financial derivative transactions, net of collateral received in or pledged by counterparty as of period end, is disclosed in the Notes to the Schedule of Investments.

On September 15, 2008, Lehman Brothers Holdings Inc. filed for protection under Chapter 11 of the United States Bankruptcy Code. On September 19, 2008, a proceeding under the Securities Investor Protection Act (SIPA) was commenced with respect to Lehman Brothers Inc., a broker-dealer. A trustee appointed under SIPA is administering the bankruptcy estate of Lehman Brothers Inc. Lehman Brothers International (Europe) was placed in administration under the UK Insolvency Act on September 15, 2008. Lehman Brothers Special Financing Inc. filed for protection under Chapter 11 of the United States Bankruptcy Code on October 3, 2008. In connection with these filings, the Lehman Brothers group of companies (collectively "Lehman Brothers") will be reorganized and/or liquidated in an orderly fashion, subject to court approval. Each Lehman Brothers entity is a separate legal entity that is subject to its own bankruptcy proceeding. Lehman Brothers Holdings Inc. and the other Lehman affiliates that are subject to Chapter 11 proceedings are currently in the process of liquidating their remaining assets and making distributions to approved creditors in accordance with their Third Amended Bankruptcy Plan, which was approved by the Bankruptcy Court on January 19, 2012.

Anticipated losses for securities and financial derivatives transactions associated with Lehman Brothers have been incorporated as components of receivable for investments sold or payable for investments purchased on the Statement of Assets and Liabilities and net realized gain/(loss) on investments on the Statement of Operations. Financial assets and liabilities may be offset and the net amount may be reported on the Statement of Assets and Liabilities where there is a legally enforceable right to set off the recognized amounts.

8. FEES AND EXPENSES

(a) Investment Advisory Fee PIMCO is a majority-owned subsidiary of Allianz Asset Management of America L.P. ("Allianz Asset Management"), and serves as the Adviser to the Trust, pursuant to an investment advisory contract. The Adviser receives a monthly fee from the Portfolio, at an annual rate based on average daily net assets (the "Investment Advisory Fee"). The Investment Advisory Fee for all classes is charged at an annual rate of 0.25%.

(b) Supervisory and Administrative Fee PIMCO serves as administrator (the "Administrator"), and provides supervisory and administrative services to the Trust for which it receives a monthly supervisory and administrative fee based on each share class's average daily net assets (the "Supervisory and Administrative Fee"). As the Administrator, PIMCO bears the costs of various third-party services, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Supervisory and Administrative Fee for all classes is charged at the annual rate of 0.25%.

(c) Distribution and Servicing Fees PIMCO Investments LLC ("PI"), a wholly-owned subsidiary of PIMCO, serves as the distributor ("Distributor") of the Trust's shares. The Trust has adopted an Administrative Services Plan with respect to the Administrative Class shares of the Portfolio pursuant to Rule 12b-1 under the Act (the "Administrative Plan"). Under the terms of the Administrative Plan, the Trust is permitted to compensate the Distributor, out of the Administrative Class assets of the Portfolio in an amount up to 0.15% on an annual basis of the average daily net assets of that class, for providing or procuring through financial intermediaries administrative, recordkeeping and investor services for Administrative Class shareholders of the Portfolio.

The Trust has adopted a separate Distribution and Servicing Plan for the Advisor Class shares of the Portfolio (the "Distribution and Servicing Plan"). The Distribution and Servicing Plan has been adopted pursuant to Rule 12b-1 under the Act. The Distribution and Servicing Plan permits the Portfolio to compensate the Distributor for providing or procuring through financial intermediaries distribution, administrative, recordkeeping, shareholder and/or related services with respect to Advisor Class shares. The Distribution and Servicing Plan permits the Portfolio to make total payments at an annual rate of up to 0.25% of its average daily net assets attributable to its Advisor Class shares.

(d) Portfolio Expenses The Trust is responsible for the following expenses: (i) salaries and other compensation of any of the Trust's executive officers and employees who are not officers, directors, stockholders or employees of PIMCO or its subsidiaries or affiliates; (ii) taxes and governmental fees; (iii) brokerage fees and commissions and other portfolio transaction expenses; (iv) the costs of borrowing money, including interest expense and bank overdraft charges; (v) fees and expenses of the Trustees who are not "interested persons" of PIMCO or the Trust, and any counsel retained exclusively for their benefit; (vi) extraordinary expense, including costs of litigation and indemnification expenses and (vii) any expenses allocated or allocable to a specific class of shares, which include service fees payable with respect to the Administrative Class Shares, and may include certain other expenses as permitted by the Trust's Multiple Class Plan adopted pursuant to Rule 18f-3 under the Act and subject to review and approval by the Trustees. The ratio of expenses to average net assets per share class, as disclosed on the Financial Highlights, may differ from the annual portfolio operating expenses per share class as disclosed in the Prospectus for the reasons set forth above.

Each Trustee, other than those affiliated with PIMCO or its affiliates, receives an annual retainer of $30,000, plus $3,500 for each Board of Trustees meeting attended in person, $500 ($750 in the case of the audit committee chair with respect to audit committee meetings) for each committee meeting attended and $750 for each Board of Trustees meeting attended telephonically, plus reimbursement of related expenses. In addition, the audit committee chair will receive an additional annual retainer of $4,000 and each other committee chair will receive an additional annual retainer of $500.

These expenses are allocated on a pro-rata basis to the various portfolios of the Trust according to their respective net assets except PIMCO All Asset Portfolio does not bear any Trustee Fees. The Trust pays no compensation directly to any Trustee or any other officer who is affiliated with the Administrator, all of whom receive remuneration for their services to the Trust from the Administrator or its affiliates.

9. RELATED PARTY TRANSACTIONS

The Adviser, Administrator, and Distributor are related parties. Fees payable to these parties are disclosed in Note 8 and the accrued related party fee amounts are disclosed on the Statement of Assets and Liabilities.

The Portfolio is permitted to purchase or sell securities from or to certain related affiliated portfolios under specified conditions outlined in procedures adopted by the Board of Trustees of the Trust. The procedures have been designed to ensure that any purchase or sale of securities by the Portfolio from or to another portfolio that are, or could be, considered an affiliate by virtue of having a common investment adviser (or affiliated investment advisers), common Trustees and/or common officers complies with Rule 17a-7 of the Act. Further, as defined under the procedures, each transaction is effected at the current market price. During the period ended June 30, 2012, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 of the Act (amounts in thousands):

Purchases	Sales
$ 32,544	$ 22,408

The Portfolio may invest in the PIMCO Short-Term Floating NAV Portfolio and PIMCO Short-Term Floating NAV Portfolio III ("PIMCO Short-Term Floating NAV Portfolios") to the extent permitted by the Act and rules thereunder. The PIMCO Short-Term Floating NAV Portfolios are registered investment companies created for use solely by the series of the Trust and series of the PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, and other series of registered investment companies advised by PIMCO, in connection with their cash management activities. The main investments of the PIMCO Short-Term Floating NAV Portfolios are money market instruments and short maturity fixed income instruments. The PIMCO Short-Term Floating NAV Portfolios may incur expenses related to their investment activities, but do not pay Investment Advisory or Supervisory and Administrative Fees to PIMCO. The PIMCO Short-Term Floating NAV Portfolios are considered to be affiliated with the Portfolio. The table below shows the Portfolio's transactions in and earnings from investments in the PIMCO Short-Term Floating NAV Portfolios for the period ended June 30, 2012 (amounts in thousands):

Investments in PIMCO Short-Term Floating NAV Portfolio

Market Value 12/31/2011	Purchases at Cost	Proceeds from Sales	Net Capital and Realized Gain	Change in Unrealized (Depreciation)	Market Value 06/30/2012	Dividend Income
$ 481,486	$ 1,378,137	$ (1,729,100)	$ 210	$ (66)	$ 130,667	$ 338

Investments in PIMCO Short-Term Floating NAV Portfolio III

Market Value 12/31/2011	Purchases at Cost	Proceeds from Sales	Net Capital and Realized (Loss)	Change in Unrealized Appreciation/ (Depreciation)	Market Value 06/30/2012	Dividend Income
$ 0	$ 90,028	$ (42,800)	$ (2)	$ 0	$ 47,226	$ 28

10. GUARANTEES AND INDEMNIFICATIONS

Under the Trust's organizational documents, each Trustee, officer, employee or other agent of the Trust (including the Trust's investment manager) is indemnified, to the extent permitted by the Act, against certain liabilities that may arise out of performance of their duties to the Portfolio. Additionally, in the normal course of business, the Portfolio enters into contracts that contain a variety of 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 has not yet occurred. However, the Portfolio has not had prior claims or losses pursuant to these contracts.

11. PURCHASES AND SALES OF SECURITIES

The length of time the Portfolio has held a particular security is not generally a consideration in investment decisions. A change in the securities held by the Portfolio is known as "portfolio turnover". The Portfolio may engage in frequent and active trading of portfolio securities to achieve its investment objective, particularly during periods of volatile market movements. High portfolio turnover (e.g., over 100%) involves correspondingly greater expenses to the Portfolio, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities. Such sales may also result in realization of taxable capital gains, including short-term capital gains (which are generally taxed at ordinary income tax rates). The trading costs and tax effects associated with portfolio turnover may adversely affect the Portfolio's performance. The portfolio turnover rates are reported in the Financial Highlights.

Purchases and sales of securities (excluding short-term investments) for the period ended June 30, 2012, were as follows (amounts in thousands):

U.S. Government/Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 8,499,047	$ 7,923,775	$ 241,178	$ 189,476

12. SHARES OF BENEFICIAL INTEREST

The Portfolio may issue an unlimited number of shares of beneficial interest with a $0.001 par value. Changes in shares of beneficial interest were as follows (shares and amounts in thousands):

	Six Months Ended 06/30/2012		Year Ended 12/31/2011	
	Shares	Amount	Shares	Amount
Receipts for shares sold				
Institutional Class	630	$ 6,616	2,045	$ 21,403
Administrative Class	16,307	171,468	36,426	381,598
Advisor Class	12,250	128,695	19,540	204,573
Issued as reinvestment of distributions				
Institutional Class	67	702	111	1,163
Administrative Class	1,340	14,103	2,109	22,064
Advisor Class	423	4,455	532	5,563
Cost of shares redeemed				
Institutional Class	(1,649)	(17,368)	(1,385)	(14,518)
Administrative Class	(18,527)	(194,621)	(29,366)	(306,883)
Advisor Class	(4,240)	(44,600)	(9,367)	(97,399)
Net increase resulting from Portfolio share transactions	6,601	$ 69,450	20,645	$ 217,564

As of June 30, 2012, 3 shareholders each owned 10% or more of the total Portfolio's outstanding shares comprising 57% of the Portfolio.

13. REGULATORY AND LITIGATION MATTERS

The Trust is not engaged in any material litigation or arbitration proceedings and is not aware of any material litigation or claim pending or threatened by or against it.

14. FEDERAL INCOME TAX MATTERS

The Portfolio intends to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code (the "Code") and distribute all of its taxable income and net realized gains, if applicable, to shareholders. Accordingly, no provision for Federal income taxes has been made.

In accordance with provisions set forth under U.S. GAAP, the Investment Adviser has reviewed the Portfolio's tax positions for all open tax years. As of June 30, 2012, the Portfolio has recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions it has taken or expects to take in future tax returns.

The Portfolio files U.S. tax returns. While the statute of limitations remains open to examine the Portfolio's U.S. tax returns filed for the fiscal years ending in 2009-2011, no examinations are in progress or anticipated at this time. The Portfolio is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

Shares of the Portfolio currently are sold to segregate asset accounts ("Separate Accounts") of insurance companies that fund variable annuity contracts and variable life insurance policies ("Variable Contracts"). Please refer to the prospectus for the Separate Account and Variable Contract for information regarding federal income tax treatment of distributions to the Separate Account.

As of June 30, 2012, the aggregate cost and the net unrealized appreciation/(depreciation) of investments for federal income tax purposes are as follows (amounts in thousands):

Federal Tax Cost	Unrealized Appreciation	Unrealized (Depreciation)	Net Unrealized Appreciation [1]
$ 2,708,414	$ 25,242	$ (15,192)	$ 10,050

(1) Primary differences, if any, between book and tax net unrealized appreciation/(depreciation) are attributable to wash sale loss deferrals.

15. SUBSEQUENT EVENTS

The Adviser has evaluated the possibility of subsequent events through the date the financial statements were issued and has determined that there are no material events that would require disclosure in the Portfolio's financial statements.

Glossary: (abbreviations that may be used in the preceding statements)

Counterparty Abbreviations:

BOA	Bank of America N.A.
BPS	BNP Paribas S.A.
BRC	Barclays Bank PLC
CBK	Citibank N.A.
DUB	Deutsche Bank AG
FBF	Credit Suisse International
FOB	Credit Suisse Securities (USA) LLC
GLM	Goldman Sachs Bank USA
GSC	Goldman Sachs & Co.
GST	Goldman Sachs International
HUS	HSBC Bank USA N.A.
JPM	JPMorgan Chase Bank N.A.
MSC	Morgan Stanley & Co., Inc.
MYC	Morgan Stanley Capital Services, Inc.
RBC	Royal Bank of Canada
RYL	Royal Bank of Scotland Group PLC
SAL	Citigroup Global Markets, Inc.
UAG	UBS AG Stamford
UBS	UBS Securities LLC

Currency Abbreviations:

AUD	Australian Dollar
BRL	Brazilian Real
CAD	Canadian Dollar
CNY	Chinese Renminbi
EUR	Euro
GBP	British Pound
IDR	Indonesian Rupiah
JPY	Japanese Yen
MXN	Mexican Peso
SGD	Singapore Dollar
USD	United States Dollar

Exchange Abbreviations:

OTC	Over-the-Counter

Index Abbreviations:

CDX.EM	Credit Derivatives Index - Emerging Markets
CDX.HY	Credit Derivatives Index - High Yield
CDX.IG	Credit Derivatives Index - Investment Grade

Other Abbreviations:

ABS	Asset-Backed Security
ALT	Alternate Loan Trust
BABs	Build America Bonds
CDO	Collateralized Debt Obligation
CLO	Collateralized Loan Obligation
FDIC	Federal Deposit Insurance Corp.
LIBOR	London Interbank Offered Rate
TIIE	Tasa de Interés Interbancaria de Equilibrio

General Information

Investment Adviser and Administrator

Pacific Investment Management Company LLC
840 Newport Center Drive
Newport Beach, CA 92660

Distributor

PIMCO Investments LLC
1633 Broadway
New York, NY 10019

Custodian

State Street Bank and Trust Company
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Kansas City, MO 64105

Transfer Agent

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Boston, MA 02205-5060

Legal Counsel

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Washington, D.C. 20006

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
1100 Walnut Street
Kansas City, MO 64106

This report is submitted for the general information of the shareholders of the PIMCO Variable Insurance Trust.

pvit.pimco-funds.com

PIMCO

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