ZURICH®

August 29, 2013

Dear Contract Owner:

Zurich American Life Insurance Company is pleased to send your customized 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 June 30, 2013, 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
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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, 2013

(Unaudited)

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Shareholders' Letter

July 26, 2013

Dear Shareholders,

Investing with Markets at Record High Levels

Equity Markets Have Potential for Generating Attractive Returns

As the S&P 500 Index climbed to record levels during the first six months of 2013, some investors grew convinced that a painful correction or bear market was unavoidable. After all, record high index levels in 2000 and 2007 were promptly followed by substantial bear markets and in recent years markets have often suffered from spring corrections. Yet after reaching an all-time high of 1579.58 on April 23, the S&P 500 continued to advance and closed on June 28 at 1606.28, which represented a 13.83% year-to-date return. While markets certainly don't go up in a constant line, we see strong reasons and fundamental support for our view that today, economic conditions, corporate fundamentals, and investor psychology can drive market performance upward in the near term and over the next few years.

Market Overview

During the first six months of 2013, concerns over the Fiscal Cliff and euro-zone recession gave way to optimism over U.S. corporate fundamentals and improvements in the country's economy, including improving home prices and declining jobless claims. Investors started the year, of course, feeling disappointed that Congress and the White House had failed to avert the Fiscal Cliff, or the combination of expiring tax cuts and reductions in government spending that collectively could dampen already modest economic growth. Yet, weekly gains by the S&P 500 persisted until mid-February, when elections in Italy sparked fear that political gridlock could hinder efforts to overhaul the country's troubled economy. In the U.S., the failure of Congress and the White House to avert additional spending cuts scheduled to kick in after March 1 also hurt investor sentiment, although equity markets overcame news that China's economy grew modestly less than expected during the first quarter of the year. Investors also shrugged off disappointing readings in manufacturing indexes that measure industrial activity.

Later in the reporting period, however, equity markets declined as investors grew concerned that certain Federal Reserve officials wanted the central bank to prepare to curtail its quantitative easing form of stimulus if economic growth continues. Those concerns were stymied by a downward revision of first-quarter GDP growth and additional comments from Fed officials who sought to assure investors that economic stimulus won't be reduced prematurely.

With declines in unemployment, improvements in real estate, and persistent corporate cash flows, equity declines were short-lived and proved to be attractive buying opportunities. As has often been the case in recent years, investor skepticism about the U.S. economy and its recovery remained very high early in 2013 and very wrong until recently reversing. Many indicators suggest that the U.S. economy is outperforming its global peers. Indeed, the real estate market continues to strengthen and recently consumer sentiment, and thus consumer spending, has begun to reflect the impact of improving home values on personal wealth. Also noteworthy, in April, unemployment dropped to

7.5%—the lowest level since December of 2008 and better than economists had expected. We've noted in prior shareholder letters that unemployment numbers are deceptive. The unemployment rate for college graduates, for example, is below 4.5%, which illustrates that this category of workers has been experiencing a substantially better job market than non-graduates.

Addressing Market Fears
Economic factors and corporate fundamentals during the five-year periods leading to the 2000 and 2007 market peaks were substantially different than the drivers behind the current bull market. Thus, while normal corrections to this current bull market should and will occur, we believe markets are firmly in an upward trend and that corrections will be attractive buying opportunities. Near-term corrections, in our view, are likely to be shallow, unlike the severe volatility of recent years and the bear markets following 2000 and 2007. The last two market cycles, unlike the current bull market, occurred during long periods of substantial economic growth in which retail investors were highly enthusiastic about equities. In comparison, the current bull market is being driven, in our opinion, primarily by corporate fundamentals as economic growth has been weak while risk-averse retail investors have been fleeing stocks for the better part of five years.

Understanding the 2000 Market Peak
During the dot-com era, which ran from 1995 to 2000, information technology, including desktop computers, Microsoft business applications, and the Internet, pushed GDP growth up 32.8%. Within that period, the seasonally adjusted unemployment rate dropped from 5.8% to 4.0% from April 1995 to the March 2000 market peak. Optimism among consumers, corporations, and retail investors surged, thanks to strong equity market gains and home values increasing 33.0% during the five-year period, according to the S&P/Case-Shiller Home Price Index 10-City Composite.

From 1995 to 2000, corporate America increased capital expenditures from 8.2% of GDP to 9.5%. By late 2000, the rate reached 9.6%, which is a level that has yet to be repeated. Spending on non-residential real estate also surged from an annualized rate of $186 billion in the first quarter of 1996 to $260 billion in the first quarter of 2000, according to J.P. Morgan. Retail investors weren't immune to the prevalent optimism. During the five-year period, they plowed $795.1 billion into U.S. equity funds, according to Morningstar estimates. By the 2000 market peak, equities represented 50% of retail investor assets in mutual funds. Yet, corporate fundamentals, including cash flow, weakened. During the dot-com era, the free cash-flow yield[1] for large cap corporations declined from 3.4% to only 1.5%, according to Empirical Research Partners. U.S. public companies' cash and short-term investments as a share of market capitalization also deteriorated, falling from nearly 5.6% in 1995 to 3.2% in 2000 and the S&P 500 price-to-earnings ratio soared from 15.6 to 27.2. Investors' eventual realization that corporate cash flow was weak, that many dot-com companies were burning through capital at an unsustainable rate, and that economic expansion wasn't sustainable eventually led to the market decline in 2000.

[1] Free cash flow is cash generated from a company's operations that remains after capital expenditures and operating expenses. It allows companies to invest for future growth, pay dividends, and conduct share repurchases. Strong free cash flow, furthermore, indicates that corporations are disciplined with costs and are maintaining revenues. It is typically measured by free cash flow yield, which is the ratio of free cash flow to enterprise value.

Understanding the 2007 Market Peak

During the five years leading to October of 2007, GDP surged upward 31.2%, while unemployment dropped considerably from 6.3% in June of 2003 to 4.7% by the end of the period. Much like during the dot-com era, consumer wealth and consumer spending benefited from the raging bull market and from home values increasing approximately 52.6%, according to the S&P/Case-Shiller Home Price Index 10-City Composite. During four consecutive years starting in 2003, annual wealth creation ranged from $2.5 trillion to $5.1 trillion, according to J.P. Morgan estimates. In the business world, optimism was strong and corporations increased capital expenditures as a percentage of GDP from 7.5% in early 2004 to 7.9% in 2007. Spending on non-residential real estate during the five-year period increased from $258 billion to $331 billion. At the same time, retail investors plowed $906.5 billion into U.S. equity funds, with stocks representing 41.0% of mutual fund assets when the equity market peaked. Yet, much like during the earlier bull market, corporate fundamentals weakened. Cash and short-term investments as a share of market capitalization dropped from 8.6% to 6.5% from July 2005 to the market peak and free cash flow yields fell from 5.0% in February 2003 to 4.3% in October 2007. Weakening corporate fundamentals, an infamous decline in real estate prices, mortgage defaults, and the maturing of the economic recovery eventually led to the bear market of 2007.

Why 2013 is Different from Past Market Cycles

Unlike the past two bull markets, recent market gains, we maintain, have been driven primarily by strong corporate fundamentals, with cash rich businesses offering attractive free cash flow yields, engaging in stock buybacks, and implementing or increasing dividends. Yet, economic growth, in our view, has been sluggish and is far from reaching a mature phase, but we believe it has strong potential to accelerate. During the subprime mortgage recession, unemployment soared to 10.0% by October 2009. Even though it declined to 7.5% in April before climbing to 7.6%, it is still substantially higher than levels in 2000 and 2007. GDP growth of only 11.0% during the five-year period ended March 2013 is also disappointing. Corporations, therefore, have been reluctant to increase spending, with capital expenditures as a percentage of GDP expanding from a low of 6.4% at the end of 2009 to only 7.5% as of March of this year, which is well below long-term averages for economic recoveries. Also during the most recent recession, non-residential real estate spending fell to $283 billion on an annualized basis by the third quarter of 2010 and has since increased modestly but is still substantially below levels experienced in past bull markets. The low level of spending on non-residential properties implies that businesses may be far from reaching a peak in real estate expenditures. Consumers have also been tight with their purse strings, especially with durable goods purchases, as illustrated by the average automobile age of approximately 11 years, which is substantially higher than 9.8 years in 2007 and 8.9 years in 2000.

Clearly, much capacity exists for GDP expansion, job creation, and other developments that, we believe, will provide attractive opportunities for leading companies to grow earnings and support equity prices. Economic growth, therefore, is likely to be supported by corporations' growing need for capital investments, consumers' increasing spending power, demand for durable goods, and a strong residential real estate recovery. During the recession following the 2007 market decline, many consumers felt insecure about the economy and until recently, the inconsistent nature of the aggregate wealth effect, or wealth created from home ownership and the stock market, hasn't helped. It has bolstered consumers' finances in only three of the last six years—2009, 2010, and 2012, according to J.P. Morgan. Last year, however, it contributed more than $4.4 trillion to individuals' balance sheets. This was the highest level since 2004 and is helping consumers feel more confident in their finances and more willing to buy big-ticket items. Like consumer spending, the creation of an estimated 2 million households has been delayed by economic uncertainty, creating pent-up housing demand. With an improving economy, however, annual household creation of 1 million to 1.6 million could occur over the next four years, according to estimates from Zelman & Associates.

With annual housing starts of 780,000 units, or half the long-term average, housing inventory could trail demand. Favorable interest rates, historically high levels of home affordability, and increasing rental fees, meanwhile, are further enhancing the appeal of homeownership and supporting the ongoing real estate recovery. With the prolonged trough in capital expenditures, cash rich corporations, meanwhile, may be ready to increase outlays for manufacturing equipment and other tools needed to run their businesses. With corporations having record levels of cash on their balance sheets, an increase in capital expenditures could be substantial and highly supportive of the nation's ongoing economic recovery.

Market Fundamentals and Investor Psychology

We are also encouraged by the strength of corporate America. The 6.22% free cash flow yield of large companies in May of this year, for example, was considerably higher than in 2000 and 2007 and illustrates that corporate fundamentals are extremely strong. Corporate balance sheets are also attractive, with cash in May of this year representing 10.13% of market capitalization. At the same time, equities are attractively valued from a price-to-book perspective (the stock market's price divided by book value). As of June of this year, large capitalization stocks had a price-to-book ratio of only 2.38, which is lower than 2.99 in October of 2007 and 5.29 in March of 2000, according to Empirical Research. Despite the strong performance of U.S. stocks since the Financial Crisis, valuations remain reasonable, with the S&P 500 having a 12-month forward P/E ratio of 13.90.

The current market rally has also occurred despite retail investors redeeming $267 billion from U.S. equity funds during the past five years. At the end of June, equities recently represented a substantially smaller portion of retail investor assets in U.S. mutual funds than during the peaks of the last two bull markets. Investors, however, may be ready to return to equities—recent record high market levels will cause some investors to realize that market declines are usually temporary and that investors who have held on to stock investments have recouped losses that resulted from the post-2007 market decline. Historically low interest rates, meanwhile, are making the recent returns of equities appear even more appealing relative to fixed income assets. With substantial levels of assets currently allocated to bonds, investors' potential rotation into equities could provide considerable upside to the market. We are not alone in our belief that equities have potential for additional gains. Celebrated investor Warren Buffett, for example, is encouraging investors to rethink their aversion to equities, having recently said that "bonds are a terrible investment now" and that stock prices "aren't ridiculously high."

Going Forward

The anticipated economic growth discussed above is likely to create increased competition among corporations at a time when technology and other global trends are requiring companies to constantly rethink and retool business strategies. With that in mind, equity investors, in our view, need to diligently seek out companies that are best prepared to benefit from the constant and swift changes being driven by technology, demographics, regulations, emerging market growth, and other large scale trends. We believe, furthermore, that our research-driven investment strategy is highly appropriate for these challenging times of large-scale change.

Portfolio Matters

The Alger Balanced Portfolio returned 5.32% for the fiscal six-month reporting period ended June 30, 2013, compared to the Russell 1000 Growth Index, which returned 11.80% and the Barclay's Capital U.S. Government/Credit Bond Index, which returned -2.67%. The equity portion of the Portfolio generated an 11.34% return and the fixed-income portion generated a -1.57% return. The Portfolio's 62% allocation to equities changed little during the period.

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

Among the most important contributors to relative performance were Johnson & Johnson; Wells Fargo & Co.; LinkedIn Corp.; KKR & Co. L.P.; and CME Group, Inc. Shares of CME performed strongly in reaction to developments described above in the Alger Growth & Income Portfolio discussion.

Detracting from performance were Microsoft Corp.; Apple, Inc.; Gilead Sciences, Inc.; Philip Morris International, Inc.; and AbbVie, Inc. Shares of Apple performed poorly in reaction to events described above in the Alger Large Cap Growth Portfolio discussion.

Regarding the fixed-income portion of the Portfolio, as of June 30, 2013, 81.3% was in corporate securities and 18.7% was in U.S. Treasuries. The portfolio held 19 securities at the start and the end of the reporting period.

While absolute yields remain historically low, we saw yields increase and the yield curve steepen during the second half of the reporting period. The 10-Year U.S. Treasury yield increased from 1.83% to 2.47% and the 3-Year U.S. Treasury yield increased from .347% to .638%, resulting in a steepening of the yield curve. With the Fed promising to keep rates low, a 10-Year yield above 2.50% may provide a nice entry to slightly longer-duration paper. We have been keeping the duration of the fixed income portion of the portfolio short in anticipation of such a change. This short duration helps protect against declines in fixed-income security prices in a rising rate environment and it lets us strategically increase the portfolio's duration when conditions warrant such a change.

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

Morningstar, Inc. conducts investment research and provides performance analysis of mutual funds and other investment products.

J.P. Morgan is a broker-dealer that provides investment research.

Zelman & Associates provides investment research for leading institutional investors on a variety of asset classes and sectors.

Empirical Research Partners is a broker-dealer that provides investment research on a wide range of topics to institutional investors.

As of June 30, 2013, the following companies represented the stated percentages of Fred Alger Management assets under management: Warner Chilcott, 0.00%; J.P. Morgan, 0.03%; Microsoft, 0.93%; Morningstar, Inc., 0.00%; Zelman & Associates, 0.00%; and Empirical Research Partners, 0.00%.

SEC Yield is computed under the SEC standardized formula applicable to the accrual of dividends.

This report and the financial statements contained herein are submitted for the general information of shareholders of the Portfolio's. This report is not authorized for distribution to prospective investors in the Portfolio unless preceded or accompanied by a 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 fund 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 fund 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 fund 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, 2013. 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 Portfolio'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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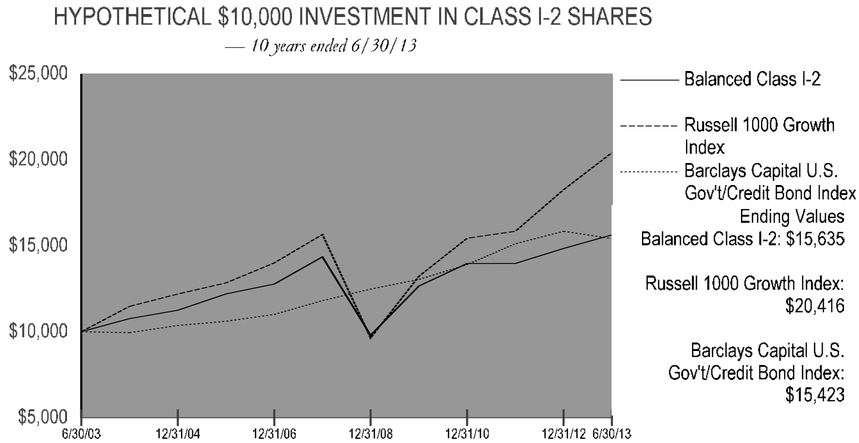
Definitions:

- The S&P/Case-Shiller Home Price 10-City Index measures the prices of homes in 10 U.S. cities.
- The Standard & Poor's 500 Index (S&P 500 Index) is an index of 500 leading companies in leading industries in the United States.
- The 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, 2013. 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 6/30/13

AVERAGE ANNUAL TOTAL RETURNS	1 YEAR	5 YEARS	10 YEARS	Since 9/5/1989
Class I-2 (Inception 9/5/89)	8.72%	3.62%	4.57%	7.34%
Russell 1000 Growth Index	17.07%	7.47%	7.40%	8.34%
Barclays Capital U.S. Gov't/Credit Bond Index	(0.62)%	5.29%	4.43%	6.75%

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, 2013 *(Unaudited)*

SECTORS/SECURITY TYPES	
Consumer Discretionary	7.6%
Consumer Staples	8.2
Energy	5.5
Financials	9.5
Health Care	7.8
Industrials	7.5
Information Technology	10.8
Materials	2.0
Telecommunication Services	2.5
Utilities	0.7
Total Equity Securities	62.1%
Corporate Bonds	29.2%
U.S. Government & Agency Obligations (excluding Mortgage Backed)	6.7
Total Debt Securities	35.9%
Short-Term and Net Other Assets	2.0%
	100.0%

† *Based on net assets for the Portfolio*.

COMMON STOCKS—58.2%	SHARES	VALUE
AEROSPACE & DEFENSE—2.6%		
Boeing Co., /The	7,500	$ 768,300
General Dynamics Corp.	8,400	657,972
Honeywell International, Inc.	12,600	999,684
		2,425,956
AIR FREIGHT & LOGISTICS—0.5%		
United Parcel Service, Inc., Cl. B	4,800	415,104
AIRLINES—0.4%		
Copa Holdings SA	2,500	327,800
APPAREL RETAIL—0.3%		
L Brands, Inc.	5,800	285,650
ASSET MANAGEMENT & CUSTODY BANKS—1.1%		
Ameriprise Financial, Inc.	5,100	412,488
BlackRock, Inc.	2,400	616,440
		1,028,928
AUTO PARTS & EQUIPMENT—0.9%		
BorgWarner, Inc. *	3,400	292,910
Delphi Automotive PLC	10,400	527,176
		820,086
BIOTECHNOLOGY—0.5%		
Amgen, Inc.	4,400	434,104
CABLE & SATELLITE—0.5%		
Comcast Corporation, Cl. A	11,000	460,680
CASINOS & GAMING—0.4%		
Las Vegas Sands Corp.	7,700	407,561
COMMUNICATIONS EQUIPMENT—2.0%		
Cisco Systems, Inc.	33,900	824,109
Corning, Inc.	23,000	327,290
QUALCOMM, Inc.	11,700	714,636
		1,866,035
COMPUTER HARDWARE—2.0%		
Apple, Inc.	4,600	1,821,968
COMPUTER STORAGE & PERIPHERALS—0.3%		
Western Digital Corp.	4,700	291,823
CONSUMER FINANCE—0.5%		
American Express Co.	6,200	463,512
DIVERSIFIED BANKS—1.2%		
Wells Fargo & Co.	27,400	1,130,798
DIVERSIFIED CHEMICALS—0.4%		
Dow Chemical Co., /The	10,100	324,917
DRUG RETAIL—0.7%		
CVS Caremark Corp.	11,000	628,980
ELECTRIC UTILITIES—0.7%		
Southern Co., /The	13,900	613,407

COMMON STOCKS—(CONT.)	SHARES	VALUE
ELECTRICAL COMPONENTS & EQUIPMENT—0.7%		
Eaton Corp., PLC	10,400	$ 684,424
FERTILIZERS & AGRICULTURAL CHEMICALS—0.4%		
Mosaic Co., /The	6,500	349,765
FOOTWEAR—0.4%		
NIKE, Inc., Cl. B	5,700	362,976
GENERAL MERCHANDISE STORES—0.8%		
Target Corp.	10,300	709,258
HOME IMPROVEMENT RETAIL—1.1%		
Home Depot, Inc., /The	12,700	983,869
HOUSEHOLD PRODUCTS—1.5%		
Procter & Gamble Co., /The	17,700	1,362,723
HYPERMARKETS & SUPER CENTERS—0.8%		
Wal-Mart Stores, Inc.	9,600	715,104
INDUSTRIAL CONGLOMERATES—1.5%		
General Electric Co.	60,300	1,398,357
INDUSTRIAL MACHINERY—0.3%		
Timken Co.	5,100	287,028
INTEGRATED OIL & GAS—3.5%		
Exxon Mobil Corp.	21,700	1,960,595
Royal Dutch Shell PLC #	20,000	1,276,000
		3,236,595
INTEGRATED TELECOMMUNICATION SERVICES—2.2%		
AT&T, Inc.	19,900	704,460
Verizon Communications, Inc.	26,000	1,308,840
		2,013,300
INTERNET SOFTWARE & SERVICES—1.2%		
Google, Inc., Cl. A*	1,300	1,144,481
INVESTMENT BANKING & BROKERAGE—0.6%		
Morgan Stanley	22,400	547,232
IT CONSULTING & OTHER SERVICES—2.2%		
Accenture Ltd.	11,500	827,540
International Business Machines Corp.	6,100	1,165,771
		1,993,311
LEISURE FACILITIES—0.6%		
Six Flags Entertainment Corp.	14,400	506,304
MANAGED HEALTH CARE—1.0%		
UnitedHealth Group, Inc.	14,700	962,556
MOVIES & ENTERTAINMENT—1.0%		
Viacom, Inc., Cl. B	14,200	966,310
OIL & GAS EQUIPMENT & SERVICES—0.6%		
Halliburton Company	12,200	508,984
OIL & GAS EXPLORATION & PRODUCTION—0.9%		
ConocoPhillips	13,200	798,600

COMMON STOCKS—(CONT.)	SHARES	VALUE
OIL & GAS REFINING & MARKETING—0.3%		
HollyFrontier Corp.	6,000	$ 256,680
OIL, GAS & CONSUMABLE FUELS—0.3%		
Williams Cos., Inc., /The	8,400	272,748
OTHER DIVERSIFIED FINANCIAL SERVICES—1.4%		
JPMorgan Chase & Co.	24,700	1,303,913
PACKAGED FOODS & MEATS—0.4%		
Kraft Foods Group, Inc.	6,000	335,220
PAPER PRODUCTS—0.8%		
International Paper Co.	16,000	708,960
PHARMACEUTICALS—6.3%		
AbbVie, Inc.	10,200	421,668
Bristol-Myers Squibb Co.	33,400	1,492,646
Eli Lilly & Co.	13,000	638,560
Johnson & Johnson	17,200	1,476,792
Pfizer, Inc.	40,289	1,128,495
Roche Holding AG #	7,400	457,801
Zoetis, Inc.	5,474	169,092
		5,785,054
RAILROADS—0.9%		
CSX Corp.	37,000	858,030
RESTAURANTS—1.3%		
Darden Restaurants, Inc.	6,800	343,264
McDonald's Corp.	8,900	881,100
		1,224,364
SECURITY & ALARM SERVICES—0.5%		
Tyco International Ltd.	14,700	484,365
SEMICONDUCTOR EQUIPMENT—0.4%		
Kla-Tencor Corp.	7,300	406,829
SEMICONDUCTORS—1.4%		
Intel Corp.	31,100	753,242
Xilinx, Inc.	12,500	495,125
		1,248,367
SOFT DRINKS—2.7%		
Coca-Cola Co., /The	27,400	1,099,014
PepsiCo, Inc.	17,500	1,431,325
		2,530,339
SPECIALIZED FINANCE—0.8%		
CME Group, Inc.	9,600	729,408
SPECIALTY CHEMICALS—0.5%		
Rockwood Holdings, Inc.	7,800	499,434
SPECIALTY STORES—0.3%		
Tiffany & Co.	4,000	291,360
SYSTEMS SOFTWARE—1.2%		
Microsoft Corp.	30,800	1,063,524

COMMON STOCKS—(CONT.)	SHARES	VALUE
TOBACCO—2.1%		
Altria Group, Inc.	25,900	$ 906,241
Philip Morris International, Inc.	12,300	1,065,426
		1,971,667
WIRELESS TELECOMMUNICATION SERVICES—0.3%		
Vodafone Group PLC#	10,300	296,022
TOTAL COMMON STOCKS		
(Cost $49,704,549)		53,544,770

MASTER LIMITED PARTNERSHIP —1.3%	SHARES	VALUE
ASSET MANAGEMENT & CUSTODY BANKS—0.6%		
Blackstone Group LP	26,700	562,302
INVESTMENT BANKING & BROKERAGE—0.7%		
Apollo Global Management LLC	25,200	607,320
TOTAL MASTER LIMITED PARTNERSHIP		
(Cost $1,209,103)		1,169,622

REAL ESTATE INVESTMENT TRUST—2.6%	SHARES	VALUE
MORTGAGE—0.3%		
Two Harbors Investment Corp.	24,300	249,075
RESIDENTIAL—0.6%		
American Homes 4 Rent*L2(a)	35,700	542,640
RETAIL—0.4%		
Simon Property Group, Inc.	2,600	410,592
SPECIALIZED—1.3%		
Health Care REIT, Inc.	8,900	596,567
Plum Creek Timber Co., Inc.	13,100	611,377
		1,207,944
TOTAL REAL ESTATE INVESTMENT TRUST		
(Cost $2,466,626)		2,410,251

CORPORATE BONDS—29.2%	PRINCIPAL AMOUNT	VALUE
AGRICULTURAL PRODUCTS—1.3%		
Cargill, Inc., 6.00%, 11/27/17L2(b)	1,000,000	1,165,008
COMMUNICATIONS EQUIPMENT—1.5%		
Cisco Systems, Inc., 5.50%, 2/22/16L2	1,250,000	1,396,686
COMPUTER HARDWARE—4.0%		
Dell, Inc., 3.10%, 4/1/16L2	1,750,000	1,749,065
Hewlett-Packard Co., 4.38%, 9/15/21L2	2,000,000	1,971,680
		3,720,745
CONSTRUCTION & FARM MACHINERY & HEAVY TRUCKS—1.8%		
John Deere Capital Corp., 2.75%, 3/15/22L2	1,750,000	1,675,980
DIVERSIFIED BANKS—2.5%		
Wachovia Corp., 5.75%, 2/1/18L2	2,000,000	2,305,882

CORPORATE BONDS—(CONT.)	PRINCIPAL AMOUNT	VALUE
HEALTH CARE EQUIPMENT		
Baxter International, Inc., 5.90%, 9/1/16 L2	$ 2,000,000	$ 2,281,356
INDUSTRIAL CONGLOMERATES—2.5%		
General Electric Capital Corp., 6.00%, 8/7/19 L2	2,000,000	2,324,882
INTEGRATED OIL & GAS—2.4%		
Total Capital SA, 4.45%, 6/24/20 L2	2,000,000	2,183,688
INTEGRATED TELECOMMUNICATION SERVICES—2.9%		
AT&T, Inc., 2.63%, 12/1/22 L2	1,500,000	1,375,818
Verizon Communications, Inc., 2.00%, 11/1/16 L2	1,300,000	1,325,722
		2,701,540
INVESTMENT BANKING & BROKERAGE—1.8%		
Goldman Sachs Group, Inc., /The, 5.75%, 1/24/22 L2	1,500,000	1,657,346
IT CONSULTING & OTHER SERVICES—1.7%		
International Business Machines Corp., 1.95%, 7/22/16 L2	1,525,000	1,564,302
OTHER DIVERSIFIED FINANCIAL SERVICES—2.3%		
JPMorgan Chase & Co., 3.45%, 3/1/16 L2	2,000,000	2,087,500
PACKAGED FOODS & MEATS—2.0%		
Campbell Soup Co., 2.50%, 8/2/22 L2	2,000,000	1,827,456
TOTAL CORPORATE BONDS		
(Cost $27,588,065)		26,892,371

U.S. TREASURY OBLIGATIONS —6.7%	PRINCIPAL AMOUNT	VALUE
1.50%, 12/31/13 L2	1,000,000	1,006,855
4.75%, 5/15/14 L2	2,052,000	2,133,600
4.25%, 11/15/14 L2	1,900,000	2,004,796
4.50%, 2/15/16 L2	940,000	1,036,718
TOTAL U.S. TREASURY OBLIGATIONS		
(Cost $6,097,466)		6,181,969

Total Investments		
(Cost $87,065,809)(c)	98.0%	90,198,983
Other Assets in Excess of Liabilities	2.0	1,804,175
NET ASSETS	100.0%	$ 92,003,158

‡ *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 Depositary Receipts.*
(a) Pursuant to Securities and Exchange Commission Rule 144A, these securities may be sold only to qualified institutional buyers. These securities are deemed to be illiquid and represent 0.6% of the net assets of the Portfolio.
(b) 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 1.3% of the net assets of the Fund.
(c) At June 30, 2013, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $87,076,748, amounted to $3,122,235 which consisted of aggregate gross unrealized appreciation of $4,980,798 and aggregate gross unrealized depreciation of $1,858,563.
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, 2013*

ASSETS:		
Investments in securities, at value (Identified cost below*) see accompanying schedule of investments	$	90,198,983
Cash and cash equivalents#		903,043
Receivable for investment securities sold		2,247,976
Receivable for shares of beneficial interest sold		28,723
Dividends and interest receivable		444,262
Prepaid expenses		10,080
Total Assets		93,833,067
LIABILITIES:		
Payable for investment securities purchased		1,678,796
Payable for shares of beneficial interest redeemed		37,636
Accrued investment advisory fees		54,624
Accrued transfer agent fees		3,868
Accrued administrative fees		2,116
Accrued shareholder servicing fees		769
Accrued other expenses		52,100
Total Liabilities		1,829,909
NET ASSETS	$	92,003,158
Net Assets Consist of:		
Paid in capital (par value $.001 per share)		101,868,220
Undistributed net investment income		1,734,433
Accumulated net realized loss		(14,732,669)
Net unrealized appreciation on investments		3,133,174
NET ASSETS	$	92,003,158
Net Asset Value Per Share		
Class I-2		$12.47
Net Assets By Class		
Class I-2	$	92,003,158
Shares of Benefical Interest Outstanding— Note 6		
Class I-2		7,378,865
*Identified Cost	$	87,065,809

 See Notes to Financial Statements.

Statement of Operations *(Unaudited)*

For the six months ended June 30, 2013

INCOME:		
Dividends (net of foreign withholding taxes below*)	$	745,818
Interest		346,800
Total Income		1,092,618
EXPENSES		
Advisory fees—Note 3(a)		332,945
Administrative fees—Note 3(b)		12,896
Custodian fees		10,160
Fund accounting fees		15,692
Transfer agent fees and expenses—Note 3(d)		16,754
Printing fees		19,575
Professional fees		18,056
Registration fees		13,002
Trustee fees—Note 3(e)		10,224
Miscellaneous		4,008
Total Expenses		453,312
NET INVESTMENT INCOME		639,306
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OPTIONS AND FOREIGN CURRENCY TRANSACTIONS:		
Net realized gain on investments and purchased options		5,751,110
Net realized loss on foreign currency transactions		(33)
Net change in unrealized appreciation (depreciation) on investments and foreign currency		(1,443,793)
Net realized and unrealized gain on investments, options and foreign currency		4,307,284
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$	4,946,590
*Foreign withholding taxes	$	5,092

See Notes to Financial Statements.

	For the Six Months Ended June 30, 2013 (Unaudited)	For the Year Ended December 31, 2012
Net investment income	$ 639,306	$ 1,120,511
Net realized gain on investments, options and foreign currency transactions	5,751,077	2,146,278
Net change in unrealized appreciation (depreciation) on investments, options and foreign currency	(1,443,793)	2,777,412
Net increase in net assets resulting from operations	4,946,590	6,044,201
Dividends and distributions to shareholders from:		
Net investment income		
Class I-2	—	(1,388,408)
Total dividends and distributions to shareholders	—	(1,388,408)
Increase (decrease) from shares of beneficial interest transactions:		
Class I-2	(6,072,138)	(13,338,359)
Net decrease from shares of beneficial interest transactions— Note 6	(6,072,138)	(13,338,359)
Total decrease	(1,125,548)	(8,682,566)
Net Assets:		
Beginning of period	93,128,706	101,811,272
END OF PERIOD	$ 92,003,158	$ 93,128,706
Undistributed net investment income	$ 1,734,433	$ 1,095,127

 See Notes to Financial Statements.

Alger Balanced Portfolio

	Class I-2					
	Six months ended 6/30/2013(i)	Year ended 12/31/2012	Year ended 12/31/2011	Year ended 12/31/2010	Year ended 12/31/2009	Year ended 12/31/2008
Net asset value, beginning of period	$ 11.84	$ 11.31	$ 11.61	$ 10.79	$ 8.64	$ 14.61
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income(ii)	0.08	0.13	0.14	0.28	0.25	0.26
Net realized and unrealized gain (loss) on investments	0.55	0.56	(0.12)	0.82	2.21	(4.35)
Total from investment operations	0.63	0.69	0.02	1.10	2.46	(4.09)
Dividends from net investment income	—	(0.16)	(0.32)	(0.28)	(0.31)	(0.33)
Distributions from net realized gains	—	—	—	—	—	(1.55)
Net asset value, end of period	$ 12.47	$ 11.84	$ 11.31	$ 11.61	$ 10.79	$ 8.64
Total return	5.32%	6.23%	0.03%	10.33%	29.25%	(31.76)%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000's omitted)	$ 92,003	$ 93,129	$ 101,811	$ 119,804	$ 127,756	$ 118,759
Ratio of gross expenses to average net assets	0.97%	0.95%	0.93%	0.91%	0.89%	0.85%
Ratio of expense reimbursements to average net assets	0.00%	0.00%	(0.04)%	(0.04)%	(0.04)%	(0.04)%
Ratio of net expenses to average net assets	0.97%	0.95%	0.89%	0.87%	0.85%	0.81%
Ratio of net investment income to average net assets	1.36%	1.13%	1.20%	2.60%	2.60%	2.19%
Portfolio turnover rate	61.97%	122.50%	102.79%	69.30%	104.04%	76.32%

(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.*

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 also may 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 Fund'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) Lending of Fund Securities: The Portfolio may lend its securities to financial institutions, provided that the market value of the securities loaned will not at any time exceed one third of the Portfolio's total assets, as defined. The Portfolio earns fees on the securities loaned, which are included in interest income in the accompanying Statement of Operations. In order to protect against the risk of failure by the borrower to return the securities loaned or any delay in the delivery of such securities, the loan is collateralized by cash or securities that are maintained in an amount equal to at least 102 percent of the current market value of U.S. loaned securities or 105 percent for non-U.S. loaned securities. The market value of the loaned securities is determined at the close of business of the Portfolio. Any required additional collateral is delivered to the Portfolio and any excess collateral is returned to the borrower on the next business day. The Portfolio is required to maintain the collateral in a segregated account and determine its value each day until the loaned securities are returned. Cash collateral may be invested as determined by the Portfolio. Collateral is returned to the borrower upon settlement of the loan. In the event the borrower fails to return loaned securities when due, the collateral may be used to replace the loaned securities. The Portfolio will be responsible for any diminution in collateral value, as defined in the securities lending agreement.

(g) 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. 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, 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.

(h) 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 2009-2012. Management does not believe there are any uncertain tax positions that require recognition of a tax liability.

(i) 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.

(j) 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

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

(a) Investment Advisory Fees: Fees incurred by the Portfolio, pursuant to the provisions of the Fund's Investment Advisory Agreement with Fred Alger Management, Inc., ("Alger Management") are payable monthly and computed based on the following rates. The actual rate paid as a percentage of average daily net assets, for the six months ended June 30, 2013, is set forth below under the heading "Actual Rate."

	Tier 1	Tier 2	Actual Rate
Alger Balanced Portfolio[(a)]	.71%	.55%	.71%

(a) Tier 1 rate is paid on assets up to $2 billion and Tier 2 rate is paid on assets between $2 to $4 billion.

(b) Administration Fees: Fees incurred by the Portfolio, pursuant to the provisions of the Fund's Administration Agreement with Alger Management are payable monthly and computed based on the average daily net assets of the Portfolio at the annual rate of 0.0275%.

(c) Brokerage Commissions: During the six months ended June 30, 2013, the Portfolio paid Alger Inc. $11,315, 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, 2013, the Portfolio incurred fees of $4,689, for these services, which are included in transfer agent fees and expenses in the Statements of Operations.

(e) Trustee Fees: From January 1, 2013, through February 28, 2013, the Portfolio paid 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 received an additional annual fee of $15,000 which was paid, pro rata, by all U.S. registered funds managed by Alger Management. Additionally, each member of the audit committee received an additional $75 for each audit committee meeting attended, to a maximum of $300 per annum.

Effective March 1, 2013, each Portfolio pays each trustee who is not affiliated with Alger Management or its affiliates $880 for each meeting attended, to a maximum of $3,520 per annum, plus travel expenses incurred for attending the meeting. The Chairman of the Board receives an additional annual fee of $22,500 which is paid, pro rata, by all U.S.-registered funds advised by Alger Management. Additionally, each member of a Portfolio's audit committee receives $75 from the Portfolio 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 Funds. If the Portfolio has borrowed from other funds 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 funds. 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 Portfolio. There were no interfund loans outstanding during the six months ended June 30, 2013.

(g) 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, 2013, were as follows:

	PURCHASES	SALES
Alger Balanced Portfolio	$56,519,254	$59,320,527

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, 2013, 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. The transactions of shares of beneficial interest were as follows:

	FOR THE SIX MONTHS ENDED JUNE 30, 2013		FOR THE YEAR ENDED DECEMBER 31, 2012	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Balanced Portfolio				
Class I-2:				
Shares sold	202,266	$ 2,524,371	479,825	$ 5,639,610
Dividends reinvested	—	—	118,560	1,388,408
Shares redeemed	(691,948)	(8,596,509)	(1,735,634)	(20,366,377)
Net decrease	(489,682)	$ (6,072,138)	(1,137,249)	$ (13,338,359)

NOTE 7 — Income Tax Information:

At December 31, 2012, 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	$ 20,371,335
Total	20,371,335

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 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. Based upon the nature, characteristics, and risks associated with its investments as of June 30, 2013, 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	$ 7,018,418	$ 7,018,418	—	—
Consumer Staples	7,544,033	7,544,033	—	—
Energy	5,073,607	5,073,607	—	—
Financials	5,203,791	5,203,791	—	—
Health Care	7,181,714	7,181,714	—	—
Industrials	6,881,064	6,881,064	—	—
Information Technology	9,836,338	9,836,338	—	—
Materials	1,883,076	1,883,076	—	—
Telecommunication Services	2,309,322	2,309,322	—	—
Utilities	613,407	613,407	—	—
TOTAL COMMON STOCKS	$ 53,544,770	$ 53,544,770	—	—
MASTER LIMITED PARTNERSHIP				
Financials	$ 1,169,622	$ 1,169,622	—	—
REAL ESTATE INVESTMENT TRUST				
Financials	$ 2,410,251	$ 1,867,611	$ 542,640	—
CORPORATE BONDS				
Consumer Staples	$ 2,992,464	—	$ 2,992,464	—
Energy	2,183,688	—	2,183,688	—
Financials	6,050,728	—	6,050,728	—
Health Care	2,281,356	—	2,281,356	—
Industrials	4,000,862	—	4,000,862	—
Information Technology	6,681,733	—	6,681,733	—
Telecommunication Services	2,701,540	—	2,701,540	—
TOTAL CORPORATE BONDS	$ 26,892,371	—	$ 26,892,371	—
U.S. GOVERNMENT & AGENCY OBLIGATIONS (EXCLUDING MORTGAGE-BACKED)				
U.S. Treasury Notes	$ 6,181,969	—	$ 6,181,969	—
TOTAL INVESTMENTS IN SECURITIES	$ 90,198,983	$ 56,582,003	$ 33,616,980	—

On June 30, 2013 there were no transfers of securities between Level 1 to Level 2.

Certain of the Portfolio's assets and liabilities are held at carrying amount or face value, which approximates fair value for financial statement purposes. As of June 30, 2013, such assets are categorized within the disclosure hierarchy as follows:

	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
Cash and Cash equivalents:				
Alger Balanced Portfolio	$ 903,043	$ 903,043	—	—

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, 2013 the Portfolio had no derivative instruments.

NOTE 10 — Recent Accounting Pronouncements:

In June 2013, the FASB issued ASU 2013-08, Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements ("ASU 2013-08"). The amendments in ASU 2013-08 include an accounting update that modifies the criteria used in defining an investment company under GAAP and sets forth certain measurement and disclosure requirements. This update requires an investment company to measure noncontrolling interests in another investment company at fair value and requires an entity to disclose the fact that it is an investment company, and provide information about changes, if any, in its status as an investment company. An entity will also need to include disclosures around financial support that has been provided or is contractually required to be provided to any of its investees. The new guidance is effective for annual reporting periods beginning on or after January 1, 2014. Management of the Portfolio does not believe that this will have a material impact on the financial statements.

NOTE 11 — Subsequent Event:

Management of the Portfolio has evaluated events that have occurred subsequent to June 30, 2013 through the issuance date of the Financial Statements. 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, 2013 and ending June 30, 2013.

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, 2013	Ending Account Value June 30, 2013	Expenses Paid During the Six Months Ended June 30, 2013(a)	Annualized Expense Ratio
Alger Balanced Portfolio					
Class I-2	Actual	$ 1,000.00	$ 1,053.21	$ 4.92	0.97%
	Hypothetical(b)	1,000.00	1,020.00	4.84	0.97

(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 181/365 (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 Board of Trustees has adopted policies and procedures relating to disclosure of the Portfolio's securities. These policies and procedures recognize that there may be legitimate business reasons for holdings to be disclosed and seek to balance those interests to protect the proprietary nature of the trading strategies and implementation thereof by the Portfolio.

Generally, the policies prohibit the release of information concerning security holdings which have not previously been made public to individual investors, institutional investors, intermediaries that distribute the Portfolio's shares and other parties which are not employed by Alger Management or its affiliates except when the legitimate business purposes for selective disclosure and other conditions (designed to protect the Portfolio) are acceptable.

The Portfolio make its full holdings available semi-annually in shareholder reports filed on Form N-CSR and after the first and third fiscal quarters in regulatory filings on Form N-Q. These shareholder reports and regulatory filings are filed with the SEC, as required by federal securities laws, and are generally available within sixty (60) days of the end of the Portfolio's fiscal quarter. The Portfolio's Form N-Q is 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.

In addition, the Portfolio makes publicly available its respective month-end top 10 holdings with a 15 day lag and their complete month-end security holdings with a 60 day lag on their website www.alger.com and through other marketing communications (including printed advertising/sales literature and/or shareholder telephone customer service centers). No compensation or other consideration is received for the non-public disclosure of security holdings information.

In accordance with the foregoing, the Portfolio provides security holdings information to service providers who provide necessary or beneficial services when such service providers need access to this information in the performance of their services and are subject to duties of confidentiality (1) imposed by law, including a duty not to trade on non-public information, and/or (2) pursuant to an agreement that confidential information is not to be disclosed or used (including trading on such information) other than as required by law. From time to time, the Portfolio will communicate with these service providers to confirm that they understand the Funds' policies and procedures regarding such disclosure. This agreement must be approved by the Portfolio's Chief Compliance Officer.

The Board of Trustees periodically reviews a report disclosing the third parties to whom the Portfolio's holdings information has been disclosed and the purpose for such disclosure, and it considers whether or not the release of information to such third parties is in the best interest of the Portfolio and its shareholders.

In addition to material the Portfolio routinely provides to shareholders, Alger Management may, upon request, make additional statistical information available regarding the Portfolio. Such information will include, but not be limited to, relative weightings and characteristics of security holdings versus their respective index and security specific impact on overall Portfolio performance. Please contact the Portfolios at (800) 992-3863 to obtain such information.

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THE ALGER PORTFOLIOS

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www.alger.com

Investment Advisor

Fred Alger Management, Inc.
360 Park Avenue South
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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 a Prospectus for the Funds, which contains information concerning the Funds' 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, 2013

(Unaudited)

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Shareholders' Letter

July 26, 2013

Dear Shareholders,

Investing with Markets at Record High Levels

Equity Markets Have Potential for Generating Attractive Returns

As the S&P 500 Index climbed to record levels during the first six months of 2013, some investors grew convinced that a painful correction or bear market was unavoidable. After all, record high index levels in 2000 and 2007 were promptly followed by substantial bear markets and in recent years markets have often suffered from spring corrections. Yet after reaching an all-time high of 1579.58 on April 23, the S&P 500 continued to advance and closed on June 28 at 1606.28, which represented a 13.83% year-to-date return. While markets certainly don't go up in a constant line, we see strong reasons and fundamental support for our view that today, economic conditions, corporate fundamentals, and investor psychology can drive market performance upward in the near term and over the next few years.

Market Overview

During the first six months of 2013, concerns over the Fiscal Cliff and euro-zone recession gave way to optimism over U.S. corporate fundamentals and improvements in the country's economy, including improving home prices and declining jobless claims. Investors started the year, of course, feeling disappointed that Congress and the White House had failed to avert the Fiscal Cliff, or the combination of expiring tax cuts and reductions in government spending that collectively could dampen already modest economic growth. Yet, weekly gains by the S&P 500 persisted until mid-February, when elections in Italy sparked fear that political gridlock could hinder efforts to overhaul the country's troubled economy. In the U.S., the failure of Congress and the White House to avert additional spending cuts scheduled to kick in after March 1 also hurt investor sentiment, although equity markets overcame news that China's economy grew modestly less than expected during the first quarter of the year. Investors also shrugged off disappointing readings in manufacturing indexes that measure industrial activity.

Later in the reporting period, however, equity markets declined as investors grew concerned that certain Federal Reserve officials wanted the central bank to prepare to curtail its quantitative easing form of stimulus if economic growth continues. Those concerns were stymied by a downward revision of first-quarter GDP growth and additional comments from Fed officials who sought to assure investors that economic stimulus won't be reduced prematurely.

With declines in unemployment, improvements in real estate, and persistent corporate cash flows, equity declines were short-lived and proved to be attractive buying opportunities. As has often been the case in recent years, investor skepticism about the U.S. economy and its recovery remained very high early in 2013 and very wrong until recently reversing. Many indicators suggest that the U.S. economy is outperforming its global peers. Indeed, the real estate market continues to strengthen and recently consumer sentiment, and thus consumer spending, has begun to reflect the impact of improving home values on personal wealth. Also noteworthy, in April, unemployment dropped to

7.5%—the lowest level since December of 2008 and better than economists had expected. We've noted in prior shareholder letters that unemployment numbers are deceptive. The unemployment rate for college graduates, for example, is below 4.5%, which illustrates that this category of workers has been experiencing a substantially better job market than non-graduates.

Addressing Market Fears

Economic factors and corporate fundamentals during the five-year periods leading to the 2000 and 2007 market peaks were substantially different than the drivers behind the current bull market. Thus, while normal corrections to this current bull market should and will occur, we believe markets are firmly in an upward trend and that corrections will be attractive buying opportunities. Near-term corrections, in our view, are likely to be shallow, unlike the severe volatility of recent years and the bear markets following 2000 and 2007. The last two market cycles, unlike the current bull market, occurred during long periods of substantial economic growth in which retail investors were highly enthusiastic about equities. In comparison, the current bull market is being driven, in our opinion, primarily by corporate fundamentals as economic growth has been weak while risk-averse retail investors have been fleeing stocks for the better part of five years.

Understanding the 2000 Market Peak

During the dot-com era, which ran from 1995 to 2000, information technology, including desktop computers, Microsoft business applications, and the Internet, pushed GDP growth up 32.8%. Within that period, the seasonally adjusted unemployment rate dropped from 5.8% to 4.0% from April 1995 to the March 2000 market peak. Optimism among consumers, corporations, and retail investors surged, thanks to strong equity market gains and home values increasing 33.0% during the five-year period, according to the S&P/Case-Shiller Home Price Index 10-City Composite.

From 1995 to 2000, corporate America increased capital expenditures from 8.2% of GDP to 9.5%. By late 2000, the rate reached 9.6%, which is a level that has yet to be repeated. Spending on non-residential real estate also surged from an annualized rate of $186 billion in the first quarter of 1996 to $260 billion in the first quarter of 2000, according to J.P. Morgan. Retail investors weren't immune to the prevalent optimism. During the five-year period, they plowed $795.1 billion into U.S. equity funds, according to Morningstar estimates. By the 2000 market peak, equities represented 50% of retail investor assets in mutual funds. Yet, corporate fundamentals, including cash flow, weakened. During the dot-com era, the free cash-flow yield[1] for large cap corporations declined from 3.4% to only 1.5%, according to Empirical Research Partners. U.S. public companies' cash and short-term investments as a share of market capitalization also deteriorated, falling from nearly 5.6% in 1995 to 3.2% in 2000 and the S&P 500 price-to-earnings ratio soared from 15.6 to 27.2. Investors' eventual realization that corporate cash flow was weak, that many dot-com companies were burning through capital at an unsustainable rate, and that economic expansion wasn't sustainable eventually led to the market decline in 2000.

[1] Free cash flow is cash generated from a company's operations that remains after capital expenditures and operating expenses. It allows companies to invest for future growth, pay dividends, and conduct share repurchases. Strong free cash flow, furthermore, indicates that corporations are disciplined with costs and are maintaining revenues. It is typically measured by free cash flow yield, which is the ratio of free cash flow to enterprise value.

Understanding the 2007 Market Peak

During the five years leading to October of 2007, GDP surged upward 31.2%, while unemployment dropped considerably from 6.3% in June of 2003 to 4.7% by the end of the period. Much like during the dot-com era, consumer wealth and consumer spending benefited from the raging bull market and from home values increasing approximately 52.6%, according to the S&P/Case-Shiller Home Price Index 10-City Composite. During four consecutive years starting in 2003, annual wealth creation ranged from $2.5 trillion to $5.1 trillion, according to J.P. Morgan estimates. In the business world, optimism was strong and corporations increased capital expenditures as a percentage of GDP from 7.5% in early 2004 to 7.9% in 2007. Spending on non-residential real estate during the five-year period increased from $258 billion to $331 billion. At the same time, retail investors plowed $906.5 billion into U.S. equity funds, with stocks representing 41.0% of mutual fund assets when the equity market peaked. Yet, much like during the earlier bull market, corporate fundamentals weakened. Cash and short-term investments as a share of market capitalization dropped from 8.6% to 6.5% from July 2005 to the market peak and free cash flow yields fell from 5.0% in February 2003 to 4.3% in October 2007. Weakening corporate fundamentals, an infamous decline in real estate prices, mortgage defaults, and the maturing of the economic recovery eventually led to the bear market of 2007.

Why 2013 is Different from Past Market Cycles

Unlike the past two bull markets, recent market gains, we maintain, have been driven primarily by strong corporate fundamentals, with cash rich businesses offering attractive free cash flow yields, engaging in stock buybacks, and implementing or increasing dividends. Yet, economic growth, in our view, has been sluggish and is far from reaching a mature phase, but we believe it has strong potential to accelerate. During the subprime mortgage recession, unemployment soared to 10.0% by October 2009. Even though it declined to 7.5% in April before climbing to 7.6%, it is still substantially higher than levels in 2000 and 2007. GDP growth of only 11.0% during the five-year period ended March 2013 is also disappointing. Corporations, therefore, have been reluctant to increase spending, with capital expenditures as a percentage of GDP expanding from a low of 6.4% at the end of 2009 to only 7.5% as of March of this year, which is well below long-term averages for economic recoveries. Also during the most recent recession, non-residential real estate spending fell to $283 billion on an annualized basis by the third quarter of 2010 and has since increased modestly but is still substantially below levels experienced in past bull markets. The low level of spending on non-residential properties implies that businesses may be far from reaching a peak in real estate expenditures. Consumers have also been tight with their purse strings, especially with durable goods purchases, as illustrated by the average automobile age of approximately 11 years, which is substantially higher than 9.8 years in 2007 and 8.9 years in 2000.

Clearly, much capacity exists for GDP expansion, job creation, and other developments that, we believe, will provide attractive opportunities for leading companies to grow earnings and support equity prices. Economic growth, therefore, is likely to be supported by corporations' growing need for capital investments, consumers' increasing spending power, demand for durable goods, and a strong residential real estate recovery. During the recession following the 2007 market decline, many consumers felt insecure about the economy and until recently, the inconsistent nature of the aggregate wealth effect, or wealth created from home ownership and the stock market, hasn't helped. It has bolstered consumers' finances in only three of the last six years—2009, 2010, and 2012, according to J.P. Morgan. Last year, however, it contributed more than $4.4 trillion to individuals' balance sheets. This was the highest level since 2004 and is helping consumers feel more confident in their finances and more willing to buy big-ticket items. Like consumer spending, the creation of an estimated 2 million households has been delayed by economic uncertainty, creating pent-up housing demand. With an improving economy, however, annual household creation of 1 million to 1.6 million could occur over the next four years, according to estimates from Zelman & Associates.

With annual housing starts of 780,000 units, or half the long-term average, housing inventory could trail demand. Favorable interest rates, historically high levels of home affordability, and increasing rental fees, meanwhile, are further enhancing the appeal of homeownership and supporting the ongoing real estate recovery. With the prolonged trough in capital expenditures, cash rich corporations, meanwhile, may be ready to increase outlays for manufacturing equipment and other tools needed to run their businesses. With corporations having record levels of cash on their balance sheets, an increase in capital expenditures could be substantial and highly supportive of the nation's ongoing economic recovery.

Market Fundamentals and Investor Psychology

We are also encouraged by the strength of corporate America. The 6.22% free cash flow yield of large companies in May of this year, for example, was considerably higher than in 2000 and 2007 and illustrates that corporate fundamentals are extremely strong. Corporate balance sheets are also attractive, with cash in May of this year representing 10.13% of market capitalization. At the same time, equities are attractively valued from a price-to-book perspective (the stock market's price divided by book value). As of June of this year, large capitalization stocks had a price-to-book ratio of only 2.38, which is lower than 2.99 in October of 2007 and 5.29 in March of 2000, according to Empirical Research. Despite the strong performance of U.S. stocks since the Financial Crisis, valuations remain reasonable, with the S&P 500 having a 12-month forward P/E ratio of 13.90.

The current market rally has also occurred despite retail investors redeeming $267 billion from U.S. equity funds during the past five years. At the end of June, equities recently represented a substantially smaller portion of retail investor assets in U.S. mutual funds than during the peaks of the last two bull markets. Investors, however, may be ready to return to equities—recent record high market levels will cause some investors to realize that market declines are usually temporary and that investors who have held on to stock investments have recouped losses that resulted from the post-2007 market decline. Historically low interest rates, meanwhile, are making the recent returns of equities appear even more appealing relative to fixed income assets. With substantial levels of assets currently allocated to bonds, investors' potential rotation into equities could provide considerable upside to the market. We are not alone in our belief that equities have potential for additional gains. Celebrated investor Warren Buffett, for example, is encouraging investors to rethink their aversion to equities, having recently said that "bonds are a terrible investment now" and that stock prices "aren't ridiculously high."

Going Forward

The anticipated economic growth discussed above is likely to create increased competition among corporations at a time when technology and other global trends are requiring companies to constantly rethink and retool business strategies. With that in mind, equity investors, in our view, need to diligently seek out companies that are best prepared to benefit from the constant and swift changes being driven by technology, demographics, regulations, emerging market growth, and other large scale trends. We believe, furthermore, that our research-driven investment strategy is highly appropriate for these challenging times of large-scale change.

Portfolio Matters

The Alger Capital Appreciation Portfolio returned 10.54% for the fiscal six-month reporting period ended June 30, 2013, compared to the Russell 1000 Growth Index return of 11.80%.

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

Among the most important relative contributors were CVS Caremark Corp.; Morgan Stanley; CBS Corp., Cl. B; Vertex Pharmaceuticals, Inc.; and Pfizer, Inc. We believe shares of Vertex Pharmaceuticals performed strongly because the company has a leadership role in the treatment of cystic fibrosis and it enjoys a lack of competing products. Vertex provides treatments for hepatitis, cystic fibrosis, and other diseases.

Conversely, detracting from relative performance were Microsoft Corp.; Home Depot Inc.; Biogen Idec Inc.; F5 Networks, Inc.; and Visa, Inc., Cl. A. Shares of F5 Networks, Inc. declined sharply during the later portion of the reporting period after the company reported first quarter results that were substantially below management's guidance. The company also reduced guidance for the coming year. It said reduced telecom carrier capital expenditures, the impact of sequestration on Federal Government spending, and delays in the introduction of several new products were hurting results.

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

Morningstar, Inc. conducts investment research and provides performance analysis of mutual funds and other investment products.

J.P. Morgan is a broker-dealer that provides investment research.

Zelman & Associates provides investment research for leading institutional investors on a variety of asset classes and sectors.

Empirical Research Partners is a broker-dealer that provides investment research on a wide range of topics to institutional investors.

As of June 30, 2013, the following companies represented the stated percentages of Fred Alger Management assets under management: Warner Chilcott, 0.00%; J.P. Morgan, 0.03%; Microsoft, 0.93%; Morningstar, Inc., 0.00%; Zelman & Associates, 0.00%; and Empirical Research Partners, 0.00%.

SEC Yield is computed under the SEC standardized formula applicable to the accrual of dividends.

This report and the financial statements contained herein are submitted for the general information of shareholders of the Portfolio's. This report is not authorized for distribution to prospective investors in the Portfolio unless preceded or accompanied by a 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 fund 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 fund 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 fund 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, 2013. 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 and Alger SMid Cap Portfolios, are subject to the risk that the cost of 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.

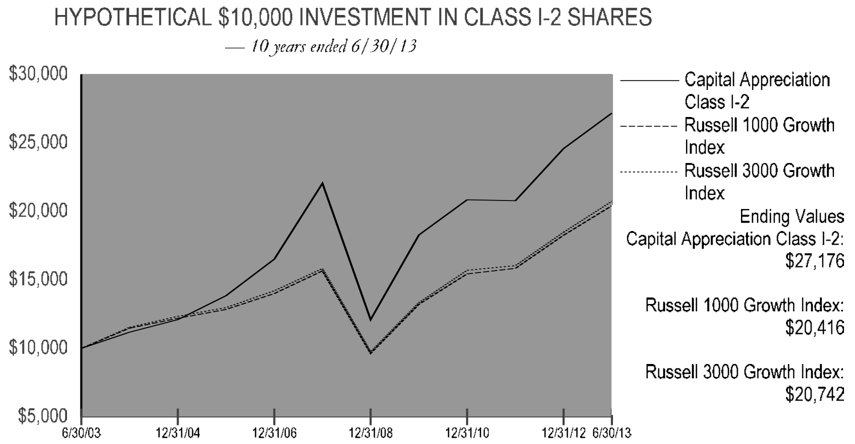
Before investing, carefully consider a Portfolio's investment objective, risks, charges, and expenses. For a prospectus containing this and other information about The Alger Portfolios call us at (800) 992-3863 or visit us at www.alger.com. Read it carefully before investing.

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

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

Definitions:

- The S&P/Case-Shiller Home Price 10-City Index measures the prices of homes in 10 U.S. cities.
- The Standard & Poor's 500 Index (S&P 500 Index) is an index of 500 leading companies in leading industries in the United States.
- The 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.
- The 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 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, 2013. 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 6/30/13

AVERAGE ANNUAL TOTAL RETURNS	1 YEAR	5 YEARS	10 YEARS	Since 1/25/1995
Class I-2 (Inception 1/25/95)	17.58%	7.28%	10.51%	12.65%
Class S (Inception 5/1/02)(i)	17.22%	6.95%	10.21%	12.38%
Russell 1000 Growth Index	17.07%	7.47%	7.40%	8.02%
Russell 3000 Growth Index	17.56%	7.58%	7.57%	7.85%

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†

June 30, 2013 (Unaudited)

SECTORS	
Consumer Discretionary	21.1%
Consumer Staples	7.9
Energy	5.0
Financials	7.0
Health Care	13.7
Industrials	10.0
Information Technology	27.8
Materials	3.2
Telecommunication Services	1.1
Short-Term and Net Other Assets	3.2
	100.0%

† *Based on net assets for the Portfolio*.

COMMON STOCKS—94.2%	SHARES	VALUE
ADVERTISING—0.9%		
Lamar Advertising Co., Cl. A*	80,800	$ 3,506,720
AEROSPACE & DEFENSE—2.4%		
Boeing Co., /The	41,800	4,281,992
Honeywell International, Inc.	64,900	5,149,166
		9,431,158
AIR FREIGHT & LOGISTICS—0.6%		
United Parcel Service, Inc., Cl. B	29,900	2,585,752
AIRLINES—0.7%		
Copa Holdings SA	11,900	1,560,328
Delta Air Lines, Inc. *	59,900	1,120,729
		2,681,057
APPAREL ACCESSORIES & LUXURY GOODS—2.1%		
Fossil Group, Inc. *	15,000	1,549,650
Michael Kors Holdings Ltd. *	56,100	3,479,322
PVH Corp.	27,300	3,413,865
		8,442,837
APPAREL RETAIL—0.3%		
L Brands, Inc.	22,800	1,122,900
APPLICATION SOFTWARE—2.5%		
Cadence Design Systems, Inc. *	257,100	3,722,808
Salesforce.com, Inc. *	106,100	4,050,898
SAP AG #	29,100	2,119,353
		9,893,059
AUTO PARTS & EQUIPMENT—1.5%		
Delphi Automotive PLC	60,100	3,046,469
WABCO Holdings, Inc. *	38,338	2,863,465
		5,909,934
AUTOMOBILE MANUFACTURERS—0.6%		
General Motors Co.*	68,000	2,265,080
BIOTECHNOLOGY—3.9%		
Amgen, Inc.	43,100	4,252,246
Biogen Idec Inc. *	8,600	1,850,720
Gilead Sciences, Inc. *	128,800	6,595,848
Vertex Pharmaceuticals, Inc. *	35,503	2,835,625
		15,534,439
BROADCASTING—1.4%		
CBS Corp., Cl. B	114,700	5,605,389
CABLE & SATELLITE—1.6%		
Comcast Corporation, Cl. A	98,700	4,133,556
DISH Network Corp.	54,500	2,317,340
		6,450,896
CASINOS & GAMING—1.4%		
Las Vegas Sands Corp.	103,500	5,478,255
COMMUNICATIONS EQUIPMENT—1.5%		
Cisco Systems, Inc.	37,400	909,194

COMMON STOCKS—(CONT.)	SHARES	VALUE
COMMUNICATIONS EQUIPMENT—(CONT.)		
F5 Networks, Inc. *	31,100	$ 2,139,680
QUALCOMM, Inc.	45,100	2,754,708
		5,803,582
COMPUTER HARDWARE—4.9%		
Apple, Inc.	49,300	19,526,744
COMPUTER STORAGE & PERIPHERALS—0.8%		
SanDisk Corp.*	52,300	3,195,530
CONSTRUCTION & ENGINEERING—1.4%		
Chicago Bridge & Iron Co., NV #	42,200	2,517,652
Quanta Services, Inc. *	108,200	2,862,972
		5,380,624
CONSTRUCTION & FARM MACHINERY & HEAVY TRUCKS—0.5%		
Caterpillar, Inc.	9,422	777,221
Cummins, Inc.	1,000	108,460
Terex Corp. *	41,600	1,094,080
		1,979,761
CONSUMER FINANCE—0.6%		
American Express Co.	29,500	2,205,420
DATA PROCESSING & OUTSOURCED SERVICES—2.4%		
Alliance Data Systems Corp. *	15,100	2,733,553
Mastercard, Inc., Cl. A	5,300	3,044,850
Visa, Inc., Cl. A	20,200	3,691,550
		9,469,953
DISTILLERS & VINTNERS—0.6%		
Beam, Inc.	40,500	2,555,955
DIVERSIFIED CHEMICALS—0.8%		
Eastman Chemical Co.	30,600	2,142,306
PPG Industries, Inc.	7,200	1,054,152
		3,196,458
DRUG RETAIL—2.1%		
CVS Caremark Corp.	147,300	8,422,614
ELECTRICAL COMPONENTS & EQUIPMENT—0.8%		
Eaton Corp., PLC	47,120	3,100,967
FERTILIZERS & AGRICULTURAL CHEMICALS—0.5%		
Mosaic Co., /The	38,800	2,087,828
FOOTWEAR—0.4%		
NIKE, Inc., Cl. B	24,000	1,528,320
GENERAL MERCHANDISE STORES—0.5%		
Dollar General Corp.*	36,500	1,840,695
HEALTH CARE EQUIPMENT—1.3%		
Covidien PLC	54,500	3,424,780
Insulet Corp. *	51,400	1,614,474
		5,039,254
HEALTH CARE FACILITIES—1.2%		
HCA Holdings, Inc.	94,500	3,407,670

COMMON STOCKS—(CONT.)	SHARES	VALUE
HEALTH CARE FACILITIES—(CONT.)		
Universal Health Services, Inc., Cl. B	23,000	$ 1,540,080
		4,947,750
HEALTH CARE SERVICES—1.3%		
Express Scripts, Inc.*	86,300	5,323,847
HOME IMPROVEMENT RETAIL—2.9%		
Home Depot, Inc., /The	85,700	6,639,179
Lowe's Companies, Inc.	115,400	4,719,860
		11,359,039
HOTELS RESORTS & CRUISE LINES—0.3%		
Wyndham Worldwide Corporation	17,900	1,024,417
HOUSEHOLD PRODUCTS—0.9%		
Procter & Gamble Co., /The	46,600	3,587,734
HUMAN RESOURCE & EMPLOYMENT SERVICES—0.6%		
Robert Half International, Inc.	77,400	2,572,002
HYPERMARKETS & SUPER CENTERS—0.1%		
Costco Wholesale Corp.	5,400	597,078
INDUSTRIAL MACHINERY—0.8%		
Ingersoll-Rand PLC	45,800	2,542,816
Timken Co.	8,300	467,124
		3,009,940
INTEGRATED TELECOMMUNICATION SERVICES—0.9%		
Verizon Communications, Inc.	67,700	3,408,018
INTERNET RETAIL—3.1%		
Amazon.com, Inc. *	35,970	9,988,509
Expedia, Inc.	34,900	2,099,235
		12,087,744
INTERNET SOFTWARE & SERVICES—8.4%		
eBay, Inc. *	121,100	6,263,292
Equinix, Inc. *	5,200	960,544
Facebook, Inc. *	186,597	4,638,801
Google, Inc., Cl. A *	16,300	14,350,031
LinkedIn Corp. *	6,800	1,212,440
VistaPrint NV *	72,800	3,594,136
Yahoo! Inc. *	87,400	2,194,614
		33,213,858
INVESTMENT BANKING & BROKERAGE—1.5%		
Morgan Stanley	250,200	6,112,386
IT CONSULTING & OTHER SERVICES—2.4%		
International Business Machines Corp.	49,100	9,383,501
LEISURE PRODUCTS—0.0%		
BRP, Inc.*(a)	9,100	212,020
LIFE SCIENCES TOOLS & SERVICES—0.9%		
Thermo Fisher Scientific, Inc.	42,000	3,554,460
MANAGED HEALTH CARE—0.9%		
UnitedHealth Group, Inc.	57,200	3,745,456

COMMON STOCKS—(CONT.)	SHARES	VALUE
MOVIES & ENTERTAINMENT—2.3%		
Viacom, Inc., Cl. B	105,400	$ 7,172,470
Walt Disney Co., /The	30,700	1,938,705
		9,111,175
OIL & GAS EQUIPMENT & SERVICES—2.2%		
Cameron International Corp. *	49,400	3,021,304
Halliburton Company	73,000	3,045,560
National Oilwell Varco, Inc.	36,600	2,521,740
		8,588,604
OIL & GAS EXPLORATION & PRODUCTION—1.9%		
Anadarko Petroleum Corp.	49,300	4,236,349
Pioneer Natural Resources Co.	23,500	3,401,625
		7,637,974
OIL & GAS REFINING & MARKETING—0.9%		
Valero Energy Corp.	100,100	3,480,477
OTHER DIVERSIFIED FINANCIAL SERVICES—2.0%		
Bank of America Corp.	133,000	1,710,380
Citigroup, Inc.	125,700	6,029,829
		7,740,209
PAPER PRODUCTS—0.3%		
International Paper Co.	23,600	1,045,716
PHARMACEUTICALS—4.1%		
Actavis, Inc. *	37,200	4,695,384
Bristol-Myers Squibb Co.	74,400	3,324,936
Eli Lilly & Co.	53,100	2,608,272
Pfizer, Inc.	157,242	4,404,348
Sanofi #	20,800	1,071,408
		16,104,348
RAILROADS—0.3%		
Union Pacific Corp.	8,800	1,357,664
REGIONAL BANKS—0.3%		
Zions Bancorporation	45,200	1,305,376
RESTAURANTS—1.9%		
McDonald's Corp.	50,800	5,029,200
Starbucks Corp.	39,600	2,593,404
		7,622,604
SECURITY & ALARM SERVICES—1.0%		
Tyco International Ltd.	119,500	3,937,525
SEMICONDUCTOR EQUIPMENT—1.6%		
ASML Holding NV #	31,312	2,476,779
Lam Research Corp. *	85,300	3,782,202
		6,258,981
SEMICONDUCTORS—2.0%		
Intel Corp.	118,400	2,867,648
Microsemi Corp. *	91,900	2,090,725
NXP Semiconductor NV *	96,700	2,995,766
		7,954,139

COMMON STOCKS—(CONT.)	SHARES	VALUE
SOFT DRINKS—2.6%		
Coca-Cola Co., /The	108,900	$ 4,367,979
PepsiCo, Inc.	73,800	6,036,102
		10,404,081
SPECIALTY CHEMICALS—1.6%		
Celanese Corp.	42,400	1,899,520
Rockwood Holdings, Inc.	66,700	4,270,801
		6,170,321
SYSTEMS SOFTWARE—1.4%		
Microsoft Corp.	162,900	5,624,937
TOBACCO—1.5%		
Philip Morris International, Inc.	67,900	5,881,498
TRADING COMPANIES & DISTRIBUTORS—0.9%		
MRC Global, Inc. *	58,600	1,618,532
United Rentals, Inc. *	11,000	549,010
WESCO International, Inc. *	18,400	1,250,464
		3,418,006
WIRELESS TELECOMMUNICATION SERVICES—0.2%		
SBA Communications Corp., Cl. A*	10,930	810,132
TOTAL COMMON STOCKS (Cost $340,253,030)		372,834,198

MASTER LIMITED PARTNERSHIP —1.0%	SHARES	VALUE
ASSET MANAGEMENT & CUSTODY BANKS—1.0%		
Blackstone Group LP	181,500	3,822,390
TOTAL MASTER LIMITED PARTNERSHIP (Cost $3,170,127)		3,822,390

REAL ESTATE INVESTMENT TRUST—1.6%	SHARES	VALUE
MORTGAGE—0.6%		
Two Harbors Investment Corp.	239,700	2,456,925
RESIDENTIAL—0.5%		
American Homes 4 Rent *L2(b)	117,625	1,787,900
Silver Bay Realty Trust Corp.	12,128	200,840
		1,988,740
SPECIALIZED—0.5%		
Ryman Hospitality Properties	48,844	1,905,405
TOTAL REAL ESTATE INVESTMENT TRUST (Cost $6,769,840)		6,351,070

Total Investments (Cost $350,192,997)(c)	96.8%	383,007,658
Other Assets in Excess of Liabilities	3.2	12,687,116
NET ASSETS	100.0%	$ 395,694,774

‡ *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 Depositary Receipts.*
(a) Pursuant to Securities and Exchange Commission Rule 144A, these securities may be sold prior to their maturity only to qualified institutional buyers. These securities are deemed to be liquid and represent 0.0% of the net assets of the Fund.
(b) Pursuant to Securities and Exchange Commission Rule 144A, these securities may be sold only to qualified institutional buyers. These securities are deemed to be illiquid and represent 0.5% of the net assets of the Portfolio.
(c) At June 30, 2013, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $351,173,051, amounted to $31,834,607 which consisted of aggregate gross unrealized appreciation of $38,495,431 and aggregate gross unrealized depreciation of $6,660,824.
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, 2013*

ASSETS:		
Investments in securities, at value (Identified cost below*) see accompanying schedule of investments	$	383,007,658
Cash and cash equivalents		10,950,497
Receivable for investment securities sold		8,151,250
Receivable for shares of beneficial interest sold		233,641
Dividends and interest receivable		256,698
Prepaid expenses		18,959
Total Assets		402,618,703
LIABILITIES:		
Payable for investment securities purchased		5,984,876
Payable for shares of beneficial interest redeemed		550,758
Accrued investment advisory fees		266,823
Accrued transfer agent fees		12,642
Accrued distribution fees		3,291
Accrued administrative fees		9,059
Accrued shareholder servicing fees		3,294
Accrued other expenses		93,186
Total Liabilities		6,923,929
NET ASSETS	$	395,694,774
Net Assets Consist of:		
Paid in capital (par value $.001 per share)		332,912,295
Undistributed net investment income		2,121,109
Undistributed net realized gain		27,846,709
Net unrealized appreciation on investments		32,814,661
NET ASSETS	$	395,694,774
Net Asset Value Per Share		
Class I-2		$67.21
Class S		$65.64
Net Assets By Class		
Class I-2	$	379,652,046
Class S	$	16,042,728
Shares of Benefical Interest Outstanding— Note 6		
Class I-2		5,648,657
Class S		244,416
*Identified Cost	$	350,192,997

 See Notes to Financial Statements.

Statement of Operations *(Unaudited)*

For the six months ended June 30, 2013

INCOME:		
Dividends (net of foreign withholding taxes below*)	$	2,958,145
Interest		1,001
Total Income		2,959,146
EXPENSES		
Advisory fees—Note 3(a)		1,569,506
Distribution fees Class S—Note 3(c)		18,940
Administrative fees—Note 3(b)		53,286
Custodian fees		26,424
Fund accounting fees		34,098
Interest		25
Transfer agent fees and expenses—Note 3(e)		65,046
Printing fees		39,580
Professional fees		29,014
Registration fees		22,751
Trustee fees—Note 3(f)		10,514
Miscellaneous		19,094
Total Expenses		1,888,278
NET INVESTMENT INCOME		1,070,868
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OPTIONS AND FOREIGN CURRENCY TRANSACTIONS:		
Net realized gain on investments and purchased options		26,539,420
Net realized gain on foreign currency transactions		757
Net change in unrealized appreciation (depreciation) on investments and foreign currency		10,380,159
Net realized and unrealized gain on investments, options and foreign currency		36,920,336
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$	37,991,204
*Foreign withholding taxes	$	4,623

See Notes to Financial Statements.

	For the Six Months Ended June 30, 2013 (Unaudited)	For the Year Ended December 31, 2012
Net investment income	$ 1,070,868	$ 4,119,447
Net realized gain on investments, options and foreign currency transactions	26,540,177	30,035,398
Net change in unrealized appreciation on investments, options and foreign currency	10,380,159	22,420,073
Net increase in net assets resulting from operations	37,991,204	56,574,918
Dividends and distributions to shareholders from:		
Net investment income		
Class I-2	—	(3,565,696)
Class S	—	(73,356)
Net realized gains		
Class I-2	—	(119,745)
Class S	—	(4,900)
Total dividends and distributions to shareholders	—	(3,763,697)
Increase (decrease) from shares of beneficial interest transactions:		
Class I-2	(5,038,476)	1,086,100
Class S	898,135	(411,066)
Net increase (decrease) from shares of beneficial interest transactions—Note 6	(4,140,341)	675,034
Total increase	33,850,863	53,486,255
Net Assets:		
Beginning of period	361,843,911	308,357,656
END OF PERIOD	$ 395,694,774	$ 361,843,911
Undistributed net investment income	$ 2,121,109	$ 1,050,241

 See Notes to Financial Statements.

Alger Capital Appreciation Portfolio

	Class I-2					
	Six months ended 6/30/2013(i)	Year ended 12/31/2012	Year ended 12/31/2011	Year ended 12/31/2010	Year ended 12/31/2009	Year ended 12/31/2008
Net asset value, beginning of period	$ 60.81	$ 51.96	$ 52.16	$ 45.92	$ 30.39	$ 55.39
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income(ii)	0.18	0.69	0.15	0.08	0.18	0.05
Net realized and unrealized gain (loss) on investments	6.22	8.80	(0.29)	6.34	15.35	(25.05)
Total from investment operations	6.40	9.49	(0.14)	6.42	15.53	(25.00)
Dividends from net investment income	—	(0.62)	(0.06)	(0.18)	—	—
Distributions from net realized gains	—	(0.02)	—	—	—	—
Net asset value, end of period	$ 67.21	$ 60.81	$ 51.96	$ 52.16	$ 45.92	$ 30.39
Total return	10.54%	18.30%	(0.30)%	14.03%	51.10%	(45.13)%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000's omitted)	$ 379,652	$ 348,152	$ 296,320	$ 284,225	$ 249,483	$ 183,335
Ratio of gross expenses to average net assets	0.97%	0.96%	0.97%	0.98%	0.99%	0.95%
Ratio of expense reimbursements to average net assets	0.00%	0.00%	(0.03)%	(0.04)%	(0.04)%	(0.04)%
Ratio of net expenses to average net assets	0.97%	0.96%	0.94%	0.94%	0.95%	0.91%
Ratio of net investment income to average net assets	0.56%	1.18%	0.28%	0.17%	0.49%	0.12%
Portfolio turnover rate	63.83%	139.19%	156.27%	203.56%	285.33%	317.72%

(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.

Alger Capital Appreciation Portfolio

	Class S					
	Six months ended 6/30/2013(i)	Year ended 12/31/2012	Year ended 12/31/2011	Year ended 12/31/2010	Year ended 12/31/2009	Year ended 12/31/2008
Net asset value, beginning of period	$ 59.46	$ 50.72	$ 51.04	$ 45.01	$ 29.86	$ 54.57
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income (loss)(ii)	0.10	0.48	(0.04)	(0.08)	0.08	(0.05)
Net realized and unrealized gain (loss) on investments	6.08	8.60	(0.28)	6.20	15.07	(24.66)
Total from investment operations	6.18	9.08	(0.32)	6.12	15.15	(24.71)
Dividends from net investment income	—	(0.32)	—	(0.09)	—	—
Distributions from net realized gains	—	(0.02)	—	—	—	—
Net asset value, end of period	$ 65.64	$ 59.46	$ 50.72	$ 51.04	$ 45.01	$ 29.86
Total return	10.39%	17.89%	(0.63)%	13.63%	50.69%	(45.28)%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000's omitted)	$ 16,043	$ 13,692	$ 12,038	$ 12,760	$ 13,307	$ 9,369
Ratio of gross expenses to average net assets	1.22%	1.30%	1.31%	1.34%	1.24%	1.20%
Ratio of expense reimbursements to average net assets	0.00%	0.00%	(0.03)%	(0.04)%	(0.04)%	(0.04)%
Ratio of net expenses to average net assets	1.22%	1.30%	1.28%	1.30%	1.20%	1.16%
Ratio of net investment income to average net assets	0.31%	0.83%	(0.07)%	(0.18)%	0.23%	(0.12)%
Portfolio turnover rate	63.83%	139.19%	156.27%	203.56%	285.33%	317.72%

(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 also may 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 Fund'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) Lending of Fund Securities: The Portfolio may lend its securities to financial institutions, provided that the market value of the securities loaned will not at any time exceed one third of the Portfolio's total assets, as defined. The Portfolio earns fees on the securities loaned, which are included in interest income in the accompanying Statement of Operations. In order to protect against the risk of failure by the borrower to return the securities loaned or any delay in the delivery of such securities, the loan is collateralized by cash or securities that are maintained in an amount equal to at least 102 percent of the current market value of U.S. loaned securities or 105 percent for non-U.S. loaned securities. The market value of the loaned securities is determined at the close of business of the Portfolio. Any required additional collateral is delivered to the Portfolio and any excess collateral is returned to the borrower on the next business day. The Portfolio is required to maintain the collateral in a segregated account and determine its value each day until the loaned securities are returned. Cash collateral may be invested as determined by the Portfolio. Collateral is returned to the borrower upon settlement of the loan. In the event the borrower fails to return loaned securities when due, the collateral may be used to replace the loaned securities. The Portfolio will be responsible for any diminution in collateral value, as defined in the securities lending agreement.

(g) 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. 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, 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.

(h) 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 2009-2012. Management does not believe there are any uncertain tax positions that require recognition of a tax liability.

(i) 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.

(j) 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.

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

(a) Investment Advisory Fees: Fees incurred by the Portfolio, pursuant to the provisions of the Fund's Investment Advisory Agreement with Fred Alger Management, Inc., ("Alger Management") are payable monthly and computed based on the following rates. The actual rate paid as a percentage of average daily net assets, for the six months ended June 30, 2013, is set forth below under the heading "Actual Rate."

	Tier 1	Tier 2	Tier 3	Actual Rate
Alger Capital Appreciation Portfolio[(a)]	.81%	.65%	.60%	.81%

[(a)] Tier 1 rate is paid on assets up to $2 billion, Tier 2 rate is paid on assets between $2 to $4 billion, and Tier 3 rate is paid on assets in excess of $4 billion.

(b) Administration Fees: Fees incurred by the Portfolio, pursuant to the provisions of the Fund's Administration Agreement with Alger Management are payable monthly and computed based on the average daily net assets of the Portfolio at the annual rate of

0.0275%.

(c) 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.

(d) Brokerage Commissions: During the six months ended June 30, 2013, the Portfolio paid Alger Inc. $163,157, in connection with securities transactions.

(e) 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, 2013, the Portfolio incurred fees of $19,377, for these services, which are included in transfer agent fees and expenses in the Statements of Operations.

(f) Trustee Fees: From January 1, 2013, through February 28, 2013, the Portfolio paid 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 received an additional annual fee of $15,000 which was paid, pro rata, by all U.S. registered funds managed by Alger Management. Additionally, each member of the audit committee received an additional $75 for each audit committee meeting attended, to a maximum of $300 per annum.

Effective March 1, 2013, each Portfolio pays each trustee who is not affiliated with Alger Management or its affiliates $880 for each meeting attended, to a maximum of $3,520 per annum, plus travel expenses incurred for attending the meeting. The Chairman of the Board receives an additional annual fee of $22,500 which is paid, pro rata, by all U.S.-registered funds advised by Alger Management. Additionally, each member of a Portfolio's audit committee receives $75 from the Portfolio for each audit committee meeting attended, to a maximum of $300 per annum.

(g) 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 Funds. If the Portfolio has borrowed from other funds 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 funds. 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 Portfolio. There were no interfund loans outstanding during the six months ended June 30, 2013.

(h) 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, 2013, were as follows:

	PURCHASES	SALES
Alger Capital Appreciation Portfolio	$242,991,885	$248,784,267

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 (fg). For the six months ended June 30, 2013, 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. The transactions of shares of beneficial interest were as follows:

	FOR THE SIX MONTHS ENDED JUNE 30, 2013		FOR THE YEAR ENDED DECEMBER 31, 2012	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Capital Appreciation Portfolio				
Class I-2:				
Shares sold	455,588	$ 29,900,930	1,396,544	$ 82,066,917
Dividends reinvested	—	—	60,422	3,667,619
Shares redeemed	(532,047)	(34,939,406)	(1,435,233)	(84,648,436)
Net increase (decrease)	(76,459)	$ (5,038,476)	21,733	$ 1,086,100
Class S:				
Shares sold	41,652	$ 2,675,837	74,688	$ 4,272,403
Dividends reinvested	—	—	1,306	78,256
Shares redeemed	(27,508)	(1,777,702)	(83,074)	(4,761,725)
Net increase (decrease)	14,144	$ 898,135	(7,080)	$ (411,066)

NOTE 7 — Income Tax Information:

At December 31, 2012, 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
Total	—

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 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. Based upon the nature, characteristics, and risks associated with its investments as of June 30, 2013, 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	$ 83,568,025	$ 83,568,025	—	—
Consumer Staples	31,448,960	31,448,960	—	—
Energy	19,707,055	19,707,055	—	—
Financials	17,363,391	17,363,391	—	—
Health Care	54,249,554	54,249,554	—	—
Industrials	39,454,456	39,454,456	—	—
Information Technology	110,324,284	110,324,284	—	—
Materials	12,500,323	12,500,323	—	—
Telecommunication Services	4,218,150	4,218,150	—	—
TOTAL COMMON STOCKS	$ 372,834,198	$ 372,834,198	—	—
MASTER LIMITED PARTNERSHIP				
Financials	$ 3,822,390	$ 3,822,390	—	—
REAL ESTATE INVESTMENT TRUST				
Financials	$ 6,351,070	$ 4,563,170	$ 1,787,900	—
TOTAL INVESTMENTS IN SECURITIES	$ 383,007,658	$ 381,219,758	$ 1,787,900	—

Certain of the Portfolio's assets and liabilities are held at carrying amount or face value, which approximates fair value for financial statement purposes. As of June 30, 2013, such assets are categorized within the disclosure hierarchy as follows:

	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
Cash and Cash equivalents:				
Alger Capital Appreciation Portfolio	$ 10,950,497	$ 10,950,497	—	—

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, 2013 the Portfolio had no derivative instruments.

NOTE 10 — Recent Accounting Pronouncements:

In June 2013, the FASB issued ASU 2013-08, Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements ("ASU 2013-08"). The amendments in ASU 2013-08 include an accounting update that modifies the criteria used in defining an investment company under GAAP and sets forth certain measurement and disclosure requirements. This update requires an investment company to measure noncontrolling interests in another investment company at fair value and requires an entity to disclose the fact that it is an investment company, and provide information about changes, if any, in its status as an investment company. An entity will also need to include disclosures around financial support that has been provided or is contractually required to be provided to any of its investees. The new guidance is effective for annual reporting periods beginning on or after January 1, 2014. Management of the Portfolio does not believe that this will have a material impact on the financial statements.

NOTE 11 — Subsequent Event:

Management of the Portfolio has evaluated events that have occurred subsequent to June 30, 2013 through the issuance date of the Financial Statements. 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, 2013 and ending June 30, 2013.

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, 2013	Ending Account Value June 30, 2013	Expenses Paid During the Six Months Ended June 30, 2013(a)	Annualized Expense Ratio
Alger Capital Appreciation Portfolio					
Class I-2	Actual	$ 1,000.00	$ 1,105.41	$ 5.04	0.97%
	Hypothetical(b)	1,000.00	1,020.01	4.84	0.97
Class S	Actual	1,000.00	1,103.93	6.37	1.22
	Hypothetical(b)	1,000.00	1,018.74	6.11	1.22

(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 181/365 (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 Board of Trustees has adopted policies and procedures relating to disclosure of the Portfolio's securities. These policies and procedures recognize that there may be legitimate business reasons for holdings to be disclosed and seek to balance those interests to protect the proprietary nature of the trading strategies and implementation thereof by the Portfolio.

Generally, the policies prohibit the release of information concerning security holdings which have not previously been made public to individual investors, institutional investors, intermediaries that distribute the Portfolio's shares and other parties which are not employed by Alger Management or its affiliates except when the legitimate business purposes for selective disclosure and other conditions (designed to protect the Portfolio) are acceptable.

The Portfolio make its full holdings available semi-annually in shareholder reports filed on Form N-CSR and after the first and third fiscal quarters in regulatory filings on Form N-Q. These shareholder reports and regulatory filings are filed with the SEC, as required by federal securities laws, and are generally available within sixty (60) days of the end of the Portfolio's fiscal quarter. The Portfolio's Form N-Q is 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.

In addition, the Portfolio makes publicly available its respective month-end top 10 holdings with a 15 day lag and their complete month-end security holdings with a 60 day lag on their website www.alger.com and through other marketing communications (including printed advertising/sales literature and/or shareholder telephone customer service centers). No compensation or other consideration is received for the non-public disclosure of security holdings information.

In accordance with the foregoing, the Portfolio provides security holdings information to service providers who provide necessary or beneficial services when such service providers need access to this information in the performance of their services and are subject to duties of confidentiality (1) imposed by law, including a duty not to trade on non-public information, and/or (2) pursuant to an agreement that confidential information is not to be disclosed or used (including trading on such information) other than as required by law. From time to time, the Portfolio will communicate with these service providers to confirm that they understand the Funds' policies and procedures regarding such disclosure. This agreement must be approved by the Portfolio's Chief Compliance Officer.

The Board of Trustees periodically reviews a report disclosing the third parties to whom the Portfolio's holdings information has been disclosed and the purpose for such disclosure, and it considers whether or not the release of information to such third parties is in the best interest of the Portfolio and its shareholders.

In addition to material the Portfolio routinely provides to shareholders, Alger Management may, upon request, make additional statistical information available regarding the Portfolio. Such information will include, but not be limited to, relative weightings and characteristics of security holdings versus their respective index and security specific impact on overall Portfolio performance. Please contact the Portfolios at (800) 992-3863 to obtain such information.

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THE ALGER PORTFOLIOS

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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 a Prospectus for the Funds, which contains information concerning the Funds' investment policies, fees and expenses as well as other pertinent information.

ALGER

Inspired by Change, Driven by Growth.

Dreyfus Investment Portfolios, MidCap Stock Portfolio

SEMIANNUAL REPORT June 30, 2013

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

A LETTER FROM THE PRESIDENT

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, 2013, through June 30, 2013. 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.

The reporting period marked the strongest first-half-of-the-year performance for U.S. stocks in 14 years. Despite heightened volatility during the second quarter stemming from signals that the Federal Reserve Board (the "Fed") is likely to back away from its quantitative easing program later this year, equity investors generally responded positively to improved U.S. economic trends. Data from recovering labor and housing markets proved especially encouraging to investors, helping to support higher stock prices across most market sectors, investment styles, and capitalization ranges.

We continue to believe that the U.S. economy is poised for sustained growth over the next several years. Pent-up demographic demand could drive continued expansion in the housing market, and higher home equity levels may bolster consumer confidence and spending. Although the Fed's shift to a more moderately stimulative monetary policy stance is likely to spark bouts of short-term volatility, we currently expect positive economic trends to support corporate earnings and stock prices over the longer term. As always, we urge you to discuss our observations with your financial adviser.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona
President
The Dreyfus Corporation
July 15, 2013

DISCUSSION OF FUND PERFORMANCE

For the period of January 1, 2013, through June 30, 2013, as provided by Warren Chiang, C.Wesley Boggs, and Ronald Gala, Portfolio Managers

Fund and Market Performance Overview

For the six-month period ended June 30, 2013, Dreyfus Investment Portfolios, MidCap Stock Portfolio's Initial shares produced a total return of 13.97%, and its Service shares produced a total return of 13.88%.[1] In comparison, the fund's benchmark, the Standard & Poor's MidCap® 400 Index (the "S&P 400 Index"), produced a total return of 14.59% for the same period.[2]

Midcap stocks generally rallied over the first six months of 2013 as investors responded positively to improving economic data with increased appetites for risk. The fund produced lower returns than its benchmark, mainly due to shortfalls in the health care and consumer discretionary 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.

Recovering Economy Fueled Midcap Market's Gains

The year 2013 began in the wake of uncertainty surrounding automatic U.S. tax hikes and spending cuts scheduled for the start of the year, but last-minute legislation to address the tax increases quickly alleviated investors' worries. Subsequently, investors responded positively to a number of economic trends, including improved U.S. employment and housing market data, and to aggressively accommodative monetary policies implemented by the Federal Reserve Board (the "Fed") and other central banks. As a result, by mid-May the S&P 400 Index and other broad measures of U.S. stock market performance reached new record highs.

In late May, remarks by Fed chairman Ben Bernanke were widely interpreted as a signal that U.S. monetary policymakers were likely to back away from an ongoing, open-ended quantitative easing program sooner than many analysts had expected. As a result, most financial markets encountered heightened volatility as investors anticipated a more moderately accommodative monetary policy. Stock market turbulence in late May and throughout June erased some of the broad stock market's previous gains, and investors began to turn away from relatively conservative, dividend-paying stocks and toward more speculative stocks, particularly those of companies considered more economically sensitive. Consequently, midcap stocks produced higher returns than their large-cap counterparts but generally trailed small-cap stocks.

Fund Participated Substantially in Market's Gains

Although the fund participated in most of the midcap stock market's gains over the first six months of the year, its performance compared to the S&P 400 Index was constrained by shortfalls in our stock selection strategy within the health care sector, particularly among biotechnology companies. Medical devices maker Thoratec was undermined by intensifying competitive pressures affecting a product used in the treatment of advanced heart failure, causing revenues to fall short of expectations. In addition, the fund held no exposure to drug developer Vertex Pharmaceuticals, which did not meet our valuation criteria but rallied nonetheless. In the consumer discretionary sector, lagging results from some specialty retailers weighed on relative performance. Apparel sellers Ann Inc. and American Eagle Outfitters reduced the earnings guidance provided to analysts. Both retailers cited sluggish economic conditions and bad weather.

On a more positive note, the fund produced particularly robust relative results in the information technology sector, where mortgage industry systems provider Lender Processing Services received an acquisition offer at a premium to its stock price at the time. In the financials sector, real estate investment trusts ("REITS") added value to the fund's relative performance despite encountering heightened volatility late in the reporting period, with notable strength evident across the full range of property types. Among individual holdings, clothing manufacturer Hanesbrands reported better-than-expected earnings after raising the guidance it provides to securities analysts.

Finding Ample Opportunities Among Midcap Stocks

We employ a bottom-up, quantitative investment process that evaluates the strengths and weaknesses of individual companies, and not broad macroeconomic trends. As always, we have continued to monitor the factors considered by the fund's investment models in light of current market conditions, and, in our view, have continued to find attractively valued, fundamentally sound companies across the full range of market sectors. With respect to the fund's holdings that have fuller valuations, we seek to replace them with more attractively valued candidates for investment.

July 15, 2013

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. The investment objective and policies of Dreyfus Investment Portfolios, MidCap Stock Portfolio made available through insurance products may be similar to other funds managed by Dreyfus. However, the investment results of the fund may be higher or lower than, and may not be comparable to, those of any other Dreyfus fund.

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, 2013 to June 30, 2013. 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, 2013

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.56	$ 5.89
Ending value (after expenses)	$1,139.70	$1,138.80

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, 2013

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.31	$ 5.56
Ending value (after expenses)	$1,020.53	$1,019.29

† *Expenses are equal to the fund's annualized expense ratio of .86% for Initial Shares and 1.11% for Service Shares, multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS

June 30, 2013 (Unaudited)

Common Stocks—99.0%	Shares		Value ($)
Automobiles & Components—1.1%			
Thor Industries	35,100		**1,726,218**
Banks—3.8%			
Associated Banc-Corp	133,000		2,068,150
Cathay General Bancorp	50,500		1,027,675
Comerica	11,900		473,977
Huntington Bancshares	34,900		275,012
Regions Financial	100,700		959,671
Webster Financial	50,100		1,286,568
			6,091,053
Capital Goods—12.2%			
AECOM Technology	81,000	a	2,574,990
Alliant Techsystems	27,600		2,272,308
IDEX	39,400		2,120,114
ITT	57,900		1,702,839
Lennox International	41,900		2,704,226
Lincoln Electric Holdings	38,000		2,176,260
Oshkosh	45,800	a	1,739,026
Terex	78,100	a	2,054,030
Textron	22,600		588,730
Timken	22,500		1,266,300
WABCO Holdings	6,000	a	448,140
			19,646,963
Commercial & Professional Services—1.4%			
Deluxe	60,700		2,103,255
Herman Miller	5,900		159,713
			2,262,968
Consumer Durables & Apparel—3.8%			
Carter's	16,500		1,222,155
Hanesbrands	58,200		2,992,644
PulteGroup	102,600	a	1,946,322
			6,161,121

Common Stocks (continued)	Shares		Value ($)
Consumer Services—1.5%			
Bally Technologies	39,300	a,b	2,217,306
Wyndham Worldwide	4,700		268,981
			2,486,287
Diversified Financials—3.8%			
American Capital	43,900	a	556,213
Apollo Investment	44,200	b	342,108
Greenhill & Co.	19,000		869,060
Moody's	3,700		225,441
SEI Investments	66,100		1,879,223
Waddell & Reed Financial, Cl. A	51,400		2,235,900
			6,107,945
Energy—4.6%			
HollyFrontier	59,500		2,545,410
Marathon Petroleum	13,600		966,416
Oceaneering International	10,100		729,220
RPC	139,700	b	1,929,257
Tesoro	14,900		779,568
Valero Energy	15,700		545,889
			7,495,760
Food, Beverage & Tobacco—4.7%			
Hillshire Brands	71,100		2,351,988
Ingredion	40,800		2,677,296
Tootsie Roll Industries	11,639	b	369,887
Universal	39,200	b	2,267,720
			7,666,891
Health Care Equipment & Services—5.9%			
Edwards Lifesciences	10,900	a	732,480
IDEXX Laboratories	15,300	a	1,373,634
Owens & Minor	6,500	b	219,895
Patterson	12,100		454,960
ResMed	52,500	b	2,369,325
STERIS	31,100		1,333,568
Thoratec	43,000	a	1,346,330

Common Stocks (continued)	Shares		Value ($)
Health Care Equipment & Services (continued)			
Universal Health Services, Cl. B	26,300		1,761,048
			9,591,240
Household & Personal Products—1.1%			
Energizer Holdings	17,300		**1,738,823**
Insurance—4.4%			
Everest Re Group	11,700		1,500,642
First American Financial	31,400		692,056
Lincoln National	12,600		459,522
Protective Life	44,700		1,716,927
Reinsurance Group of America	38,900		2,688,379
			7,057,526
Materials—7.7%			
Ball	3,400		141,236
Domtar	9,500		631,750
Minerals Technologies	57,800		2,389,452
NewMarket	8,220	b	2,158,243
Packaging Corporation of America	55,000		2,692,800
Reliance Steel & Aluminum	29,900		1,960,244
Worthington Industries	76,600		2,428,986
			12,402,711
Media—2.2%			
Scholastic	53,000		1,552,370
Valassis Communications	78,300	b	1,925,397
			3,477,767
Pharmaceuticals, Biotech & Life Sciences—4.7%			
Agilent Technologies	7,100		303,596
Charles River Laboratories International	30,200	a	1,239,106
Mettler-Toledo International	13,800	a	2,776,560
Techne	19,500		1,347,060
United Therapeutics	29,200	a	1,921,944
			7,588,266

Common Stocks (continued)	Shares		Value ($)
Real Estate—8.6%			
BRE Properties	24,400	c	1,220,488
Camden Property Trust	15,500	c	1,071,670
CBL & Associates Properties	87,100	c	1,865,682
Corrections Corporation of America	73,035	c	2,473,695
Extra Space Storage	12,500	c	524,125
Kimco Realty	10,500	c	225,015
Liberty Property Trust	32,100	c	1,186,416
National Retail Properties	37,200	b,c	1,279,680
Omega Healthcare Investors	44,500	c	1,380,390
Potlatch	26,900	c	1,087,836
Weingarten Realty Investors	52,500	c	1,615,425
			13,930,422
Retailing—5.5%			
Aaron's	39,200		1,097,992
American Eagle Outfitters	116,800		2,132,768
ANN	30,400	a	1,009,280
Chico's FAS	53,100		905,886
Dillard's, Cl. A	21,200		1,737,764
O'Reilly Automotive	8,700	a	979,794
PetSmart	14,900		998,151
			8,861,635
Semiconductors & Semiconductor Equipment—.8%			
Cree	8,000	a	510,880
LSI	106,600	a	761,124
			1,272,004
Software & Services—9.4%			
Cadence Design Systems	146,200	a	2,116,976
CoreLogic	89,400	a	2,071,398
DST Systems	27,244		1,779,851
FactSet Research Systems	11,000	b	1,121,340
Fair Isaac	27,400		1,255,742

Common Stocks (continued)	Shares		Value ($)
Software & Services (continued)			
Intuit	11,000		671,330
Lender Processing Services	27,200		879,920
NeuStar, Cl. A	54,100	a	2,633,588
Synopsys	53,800	a	1,923,350
Total System Services	26,500		648,720
			15,102,215
Technology Hardware & Equipment—3.8%			
Brocade Communications Systems	325,700	a	1,876,032
Harris	44,700		2,201,475
Lexmark International, Cl. A	20,100	b	614,457
Vishay Intertechnology	101,000	a	1,402,890
			6,094,854
Transportation—1.3%			
Alaska Air Group	21,800	a	1,133,600
Matson	40,500		1,012,500
			2,146,100
Utilities—6.9%			
Edison International	35,500		1,709,680
IDACORP	45,500		2,173,080
NV Energy	68,500		1,607,010
Pinnacle West Capital	23,900		1,325,733
UGI	66,800		2,612,548
Wisconsin Energy	41,700		1,709,283
			11,137,334
Total Common Stocks (cost $136,917,963)			**160,046,103**

Other Investment—.7%			
Registered Investment Company;			
Dreyfus Institutional Preferred Plus Money Market Fund (cost $1,091,423)	1,091,423	d	**1,091,423**

Investment of Cash Collateral for Securities Loaned—7.3%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Fund (cost $11,710,805)	11,710,805 [d]	**11,710,805**
Total Investments (cost $149,720,191)	**107.2%**	**172,848,331**
Liabilities, Less Cash and Receivables	**(7.2%)**	**(11,554,490)**
Net Assets	**100.0%**	**161,293,841**

[a] *Non-income producing security.*
[b] *Security, or portion thereof, on loan. At June 30, 2013, the value of the fund's securities on loan was $11,272,583 and the value of the collateral held by the fund was $11,710,805.*
[c] *Investment in real estate investment trust.*
[d] *Investment in affiliated money market mutual fund.*

Portfolio Summary (Unaudited)†

	Value (%)		Value (%)
Capital Goods	12.2	Banks	3.8
Software & Services	9.4	Consumer Durables & Apparel	3.8
Real Estate	8.6	Diversified Financials	3.8
Money Market Investments	8.0	Technology Hardware & Equipment	3.8
Materials	7.7	Media	2.2
Utilities	6.9	Consumer Services	1.5
Health Care Equipment & Services	5.9	Commercial & Professional Services	1.4
Retailing	5.5	Transportation	1.3
Food, Beverage & Tobacco	4.7	Automobiles & Components	1.1
Pharmaceuticals, Biotech & Life Sciences	4.7	Household & Personal Products	1.1
Energy	4.6	Semiconductors & Semiconductor Equipment	.8
Insurance	4.4		**107.2**

† *Based on net assets.*
See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2013 (Unaudited)

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments (including securities on loan, valued at $11,272,583)—Note 1(b):		
Unaffiliated issuers	136,917,963	160,046,103
Affiliated issuers	12,802,228	12,802,228
Cash		29,142
Receivable for investment securities sold		7,062,990
Dividends and securities lending income receivable		250,504
Prepaid expenses		15,143
		180,206,110
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(b)		117,334
Liability for securities on loan—Note 1(b)		11,710,805
Payable for investment securities purchased		6,566,002
Payable for shares of Beneficial Interest redeemed		470,182
Accrued expenses		47,946
		18,912,269
Net Assets ($)		**161,293,841**
Composition of Net Assets ($):		
Paid-in capital		150,198,505
Accumulated undistributed investment income—net		1,229,563
Accumulated net realized gain (loss) on investments		(13,262,367)
Accumulated net unrealized appreciation (depreciation) on investments		23,128,140
Net Assets ($)		**161,293,841**

Net Asset Value Per Share

	Initial Shares	Service Shares
Net Assets ($)	141,004,149	20,289,692
Shares Outstanding	8,000,726	1,152,508
Net Asset Value Per Share ($)	**17.62**	**17.60**

See notes to financial statements.

STATEMENT OF OPERATIONS

Six Months Ended June 30, 2013 (Unaudited)

Investment Income ($):	
Income:	
Cash dividends (net of $109 foreign taxes withheld at source):	
Unaffiliated issuers	1,905,455
Affiliated issuers	528
Income from securities lending—Note 1(b)	18,428
Total Income	**1,924,411**
Expenses:	
Management fee—Note 3(a)	597,855
Prospectus and shareholders' reports	38,872
Professional fees	32,923
Distribution fees—Note 3(b)	24,773
Custodian fees—Note 3(b)	7,010
Trustees' fees and expenses—Note 3(c)	3,492
Loan commitment fees—Note 2	575
Shareholder servicing costs—Note 3(b)	3
Miscellaneous	4,074
Total Expenses	**709,577**
Less—reduction in fees due to earnings credits—Note 3(b)	(3)
Net Expenses	**709,574**
Investment Income—Net	**1,214,837**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	10,357,213
Net unrealized appreciation (depreciation) on investments	8,766,562
Net Realized and Unrealized Gain (Loss) on Investments	**19,123,775**
Net Increase in Net Assets Resulting from Operations	**20,338,612**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended June 30, 2013 (Unaudited)	Year Ended December 31, 2012
Operations ($):		
Investment income—net	1,214,837	2,260,002
Net realized gain (loss) on investments	10,357,213	12,930,670
Net unrealized appreciation (depreciation) on investments	8,766,562	10,755,359
Net Increase (Decrease) in Net Assets Resulting from Operations	**20,338,612**	**25,946,031**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(2,004,668)	(595,625)
Service Shares	(239,571)	(38,075)
Total Dividends	**(2,244,239)**	**(633,700)**
Beneficial Interest Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	5,042,212	8,034,372
Service Shares	2,473,201	1,758,717
Dividends reinvested:		
Initial Shares	2,004,668	595,625
Service Shares	239,571	38,075
Cost of shares redeemed:		
Initial Shares	(10,296,922)	(25,670,895)
Service Shares	(2,509,206)	(4,059,807)
Increase (Decrease) in Net Assets from Beneficial Interest Transactions	**(3,046,476)**	**(19,303,913)**
Total Increase (Decrease) in Net Assets	**15,047,897**	**6,008,418**
Net Assets ($):		
Beginning of Period	146,245,944	140,237,526
End of Period	**161,293,841**	**146,245,944**
Undistributed investment income—net	1,229,563	2,258,965

	Six Months Ended June 30, 2013 (Unaudited)	Year Ended December 31, 2012
Capital Share Transactions:		
Initial Shares		
Shares sold	291,740	555,152
Shares issued for dividends reinvested	114,815	40,245
Shares redeemed	(593,690)	(1,766,441)
Net Increase (Decrease) in Shares Outstanding	**(187,135)**	**(1,171,044)**
Service Shares		
Shares sold	142,507	118,588
Shares issued for dividends reinvested	13,721	2,573
Shares redeemed	(143,313)	(279,454)
Net Increase (Decrease) in Shares Outstanding	**12,915**	**(158,293)**

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, 2013 (Unaudited)	Year Ended December 31, 2012	2011	2010	2009	2008
Per Share Data ($):						
Net asset value, beginning of period	15.68	13.16	13.17	10.46	7.85	15.52
Investment Operations:						
Investment income—net[a]	.13	.23	.06	.06	.11	.09
Net realized and unrealized gain (loss) on investments	2.06	2.36	.00[b]	2.76	2.62	(5.63)
Total from Investment Operations	2.19	2.59	.06	2.82	2.73	(5.54)
Distributions:						
Dividends from investment income—net	(.25)	(.07)	(.07)	(.11)	(.12)	(.12)
Dividends from net realized gain on investments	–	–	–	–	–	(2.01)
Total Distributions	(.25)	(.07)	(.07)	(.11)	(.12)	(2.13)
Net asset value, end of period	17.62	15.68	13.16	13.17	10.46	7.85
Total Return (%)	13.97[c]	19.67	.40	27.10	35.51	(40.42)
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	.86[d]	.85	.86	.84	.84	.82
Ratio of net expenses to average net assets	.86[d]	.85	.86	.84	.84	.81
Ratio of net investment income to average net assets	1.55[d]	1.58	.50	.54	1.22	.76
Portfolio Turnover Rate	35.23[c]	73.96	81.48	79.28	75.42	86.74
Net Assets, end of period ($ x 1,000)	141,004	128,410	123,187	147,155	131,962	125,701

[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, 2013 (Unaudited)	Year Ended December 31, 2012	2011	2010	2009	2008
Per Share Data ($):						
Net asset value, beginning of period	15.65	13.14	13.16	10.46	7.82	15.45
Investment Operations:						
Investment income—net[a]	.11	.19	.02	.05	.10	.08
Net realized and unrealized gain (loss) on investments	2.05	2.35	.01	2.76	2.63	(5.60)
Total from Investment Operations	2.16	2.54	.03	2.81	2.73	(5.52)
Distributions:						
Dividends from investment income—net	(.21)	(.03)	(.05)	(.11)	(.09)	(.10)
Dividends from net realized gain on investments	–	–	–	–	–	(2.01)
Total Distributions	(.21)	(.03)	(.05)	(.11)	(.09)	(2.11)
Net asset value, end of period	17.60	15.65	13.14	13.16	10.46	7.82
Total Return (%)	13.88[b]	19.34	.20	26.94	35.33	(40.44)
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	1.11[c]	1.10	1.11	1.09	1.09	1.06
Ratio of net expenses to average net assets	1.11[c]	1.10	1.11	.97	.90	.90
Ratio of net investment income to average net assets	1.31[c]	1.32	.18	.40	1.16	.62
Portfolio Turnover Rate	35.23[b]	73.96	81.48	79.28	75.42	86.74
Net Assets, end of period ($ x 1,000)	20,290	17,836	17,050	19,586	16,090	13,881

[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 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 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 (the "Board"). 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 within Level 2 or 3 of the fair value hierarchy 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, 2013 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 Common Stocks†	160,046,103	–	–	**160,046,103**
Mutual Funds	12,802,228	–	–	**12,802,228**

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

At June 30, 2013, there were no transfers 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 or U.S. Government and Agency securities. The fund is entitled to receive all dividends, interest and distributions on securities loaned, in addition to income earned as a result of the lending transaction. Should a borrower fail to return the securities in a timely manner, The Bank of New York Mellon is required to replace the securities for the benefit of the fund and credit the fund with the market value of the unreturned securities and is subrogated to the fund's rights against the borrower and the collateral. During the period ended June 30, 2013, The Bank of New York Mellon earned $7,898 from lending portfolio securities, pursuant to the securities lending agreement.

(c) Affiliated issuers: Investments in other investment companies advised by Dreyfus are defined as "affiliated" under the Act. Investments in affiliated investment companies during the period ended June 30, 2013 were as follows:

Affiliated Investment Company	Value 12/31/2012 ($)	Purchases ($)	Sales ($)	Value 6/30/2013 ($)	Net Assets (%)
Dreyfus Institutional Preferred Plus Money Market Fund	265,482	9,580,379	8,754,438	1,091,423	.7
Dreyfus Institutional Cash Advantage Fund	8,324,137	44,589,104	41,202,436	11,710,805	7.3
Total	**8,589,619**	**54,169,483**	**49,956,874**	**12,802,228**	**8.0**

(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, 2013, 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 tax year in the three-year period ended December 31, 2012 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 $23,578,527 available for federal income tax purposes to be applied against future net realized capital gains, if any, realized subsequent to December 31, 2012. 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, 2012 was as follows: ordinary income $633,700. The tax character of current year distributions will be determined at the end of the current year.

NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in a $210 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, 2013, 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 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 Distribution 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 Distribution Plan are payable without regard to actual expenses incurred. During the period ended June 30, 2013, Service shares were charged $24,773 pursuant to the Distribution Plan.

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.

The fund compensates Dreyfus Transfer, Inc., a wholly-owned subsidiary of the Manager, under a transfer agency agreement for providing transfer agency services for the fund and cash management services related to fund subscriptions and redemptions. During the period ended June 30, 2013, the fund was charged $406 for transfer agency services and $20 for cash management services. Cash management fees were partially offset by earnings credits of $3. These fees are 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, 2013, the fund was charged $7,010 pursuant to the custody agreement.

The fund compensates The Bank of New York Mellon under a cash management agreement for performing certain cash management services related to fund subscriptions and redemptions. During the period ended June 30, 2013, the fund was charged $12 pursuant to the cash management agreement, which is included in Shareholder servicing costs in the Statement of Operations.

During the period ended June 30, 2013, the fund was charged $4,630 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 $100,672, Distribution Plan fees $4,194, custodian fees $7,740, Chief Compliance Officer fees $4,630 and transfer agency fees $98.

(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, 2013, amounted to $55,728,168 and $59,273,061, respectively.

At June 30, 2013, accumulated net unrealized appreciation on investments was $23,128,140, consisting of $26,256,792 gross unrealized appreciation and $3,128,652 gross unrealized depreciation.

At June 30, 2013, 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.

0174SA0613

The Dreyfus Socially Responsible Growth Fund, Inc.

SEMIANNUAL REPORT June 30, 2013

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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THE FUND

FOR MORE INFORMATION

The Dreyfus Socially Responsible Growth Fund, Inc.

The Fund

A LETTER FROM THE PRESIDENT

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, 2013, through June 30, 2013. 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.

The reporting period marked the strongest first-half-of-the-year performance for U.S. stocks in 14 years. Despite heightened volatility during the second quarter stemming from signals that the Federal Reserve Board (the "Fed") is likely to back away from its quantitative easing program later this year, equity investors generally responded positively to improved U.S. economic trends. Data from recovering labor and housing markets proved especially encouraging to investors, helping to support higher stock prices across most market sectors, investment styles, and capitalization ranges.

We continue to believe that the U.S. economy is poised for sustained growth over the next several years. Pent-up demographic demand could drive continued expansion in the housing market, and higher home equity levels may bolster consumer confidence and spending. Although the Fed's shift to a more moderately stimulative monetary policy stance is likely to spark bouts of short-term volatility, we currently expect positive economic trends to support corporate earnings and stock prices over the longer term. As always, we urge you to discuss our observations with your financial adviser.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona
President
The Dreyfus Corporation
July 15, 2013

DISCUSSION OF FUND PERFORMANCE

For the period of January 1, 2013, through June 30, 2013, as provided by Warren Chiang, C. Wesley Boggs, and Ronald Gala, Portfolio Managers

Fund and Market Performance Overview

For the six-month period ended June 30, 2013, The Dreyfus Socially Responsible Growth Fund's Initial shares produced a total return of 16.27%, and the fund's Service shares returned 16.11%.[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 13.82% for the same period.[2]

Stocks generally rallied over the reporting period when investors responded positively to improved economic trends. The fund outperformed its benchmark, mainly due to successful stock selections in seven of the 10 market sectors that comprise the benchmark.

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 net 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.

Recovering Economy Fueled Market Gains

The year 2013 began in the wake of uncertainty surrounding automatic U.S. tax hikes and spending cuts scheduled for the start of the year, but last-minute legislation to address the tax increases quickly alleviated investors' worries. Subsequently, investors responded positively to improved employment and housing market trends, and to aggressively accommodative monetary policies from the Federal Reserve Board (the "Fed") and other central banks. Consequently, by mid-May the S&P 500 Index reached a new record high.

In late May, remarks by Fed chairman Ben Bernanke were widely interpreted as a signal that monetary policymakers would back away from an ongoing quantitative easing program sooner than expected. Heightened volatility ensued as investors anticipated a less accommodative monetary policy, erasing some of the market's previous gains. Moreover, investors began to turn away from relatively conservative stocks and toward more speculative and economically sensitive stocks.

Quality-of-Life Criteria Bolstered Relative Results

The fund's relative results were buoyed when its socially responsible criteria limited participation in a number of companies and industry groups that lagged market averages over the first half of 2013. In addition, the earnings quality and behavioral factors considered by our quantitative process proved effective, while valuation factors produced mixed results.

Results were particularly robust in the health care sector, where life sciences company Life Technologies received a takeover offer at a premium to its stock price at the time. In the financials sector, underweighted exposure to diversified financial institutions enabled the fund to avoid the brunt of their relative weakness, while overweighted exposure to smaller regional banks supported relative performance. An emphasis on growth-oriented companies in the information technology sector enabled the fund to beat sector averages. Relatively heavy exposure to hardware manufacturer Dell, which was sold during the reporting period, and an underweighted position in consumer electronics giant Apple proved especially beneficial.

The fund received mildly disappointing contributions to performance from the energy and materials sectors, both of which struggled with falling commodity prices amid sluggish global economic growth.

Empowering Healthier Food Choices

Whole Foods Market announced an alliance with educational organization FoodFight to combat the nation's obesity epidemic. With Whole Foods Market's help, FoodFight is expanding its Teacher Wellness Program to six U.S. cities. The program examines the social, political, and economic forces that shape what we eat, and it offers strategies to empower teachers and students to make healthier choices as consumers. In our view, this program is evidence of Whole Foods Market's strong commitment to social responsibility.

Finding Opportunities Across Market Sectors

Although our investment process evaluates the strengths and weaknesses of individual companies, and does not directly consider broader economic and market trends, it is worth noting that recent economic data has remained positive. Moreover, many companies have shored up their balance sheets with large cash balances that can be used more productively through capital investments and mergers-and-acquisitions activity.

We have continued to find companies meeting our investment criteria across a variety of industry groups, and we have maintained our efforts to manage risks through a generally sector-neutral allocation strategy and a broadly diversified investment portfolio.

July 15, 2013

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. The investment objective and policies of The Dreyfus Socially Responsible Growth Fund, Inc. made available through insurance products may be similar to other funds managed by Dreyfus. However, the investment results of the fund may be higher or lower than, and may not be comparable to, those of any other Dreyfus fund.

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, 2013 to June 30, 2013. 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, 2013

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.45	$ 5.84
Ending value (after expenses)	$1,162.70	$1,161.10

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, 2013

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.16	$ 5.46
Ending value (after expenses)	$1,020.68	$1,019.39

† *Expenses are equal to the fund's annualized expense ratio of .83% for Initial Shares and 1.09% for Service Shares, multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS

June 30, 2013 (Unaudited)

Common Stocks—99.2%	Shares		Value ($)
Automobiles & Components—1.5%			
Thor Industries	75,150		**3,695,877**
Banks—6.7%			
BB&T	83,750		2,837,450
Comerica	128,200	a	5,106,206
KeyCorp	384,700		4,247,088
Regions Financial	412,800		3,933,984
			16,124,728
Capital Goods—6.0%			
3M	17,500		1,913,625
Donaldson	50,350		1,795,481
Fluor	20,100		1,192,131
General Electric	78,100		1,811,139
Ingersoll-Rand	22,100		1,226,992
Parker Hannifin	41,950		4,002,030
Snap-on	28,700		2,565,206
			14,506,604
Commercial & Professional Services—1.5%			
Avery Dennison	28,700		1,227,212
Tyco International	72,950		2,403,703
			3,630,915
Consumer Durables & Apparel—.9%			
Hasbro	45,350	a	**2,033,041**
Consumer Services—1.8%			
Marriott International, Cl. A	107,100		**4,323,627**
Diversified Financials—5.7%			
American Express	62,750		4,691,190
Discover Financial Services	47,800		2,277,192
NASDAQ OMX Group	71,100		2,331,369
T. Rowe Price Group	31,600		2,311,540
Waddell & Reed Financial, Cl. A	48,250		2,098,875
			13,710,166
Energy—9.3%			
Bristow Group	45,250		2,955,730
ConocoPhillips	70,400		4,259,200
Denbury Resources	190,750	b	3,303,790

Common Stocks (continued)	Shares		Value ($)
Energy (continued)			
Devon Energy	45,900		2,381,292
EnCana	136,300	a	2,308,922
Hess	38,600		2,566,514
Marathon Petroleum	15,500		1,101,430
Spectra Energy	96,800		3,335,728
			22,212,606
Food & Staples Retailing—2.9%			
Costco Wholesale	16,750		1,852,047
Kroger	47,400		1,637,196
Whole Foods Market	66,800		3,438,864
			6,928,107
Food, Beverage & Tobacco—2.7%			
Coca-Cola Enterprises	46,350		1,629,666
Hershey	29,950		2,673,936
PepsiCo	25,050		2,048,839
			6,352,441
Health Care Equipment & Services—4.2%			
AmerisourceBergen	47,850		2,671,465
Becton Dickinson & Co.	27,575		2,725,237
Edwards Lifesciences	18,000	b	1,209,600
Laboratory Corp. of America Holdings	12,800	b	1,281,280
Patterson	60,900		2,289,840
			10,177,422
Household & Personal Products—.9%			
Clorox	15,150		1,259,571
Procter & Gamble	12,375		952,751
			2,212,322
Insurance—2.2%			
Aflac	59,900		3,481,388
Marsh & McLennan	46,550		1,858,276
			5,339,664
Materials—2.3%			
Alcoa	125,350		980,237
Ball	82,250		3,416,665
Sigma-Aldrich	14,850		1,193,346
			5,590,248

Common Stocks (continued)	Shares		Value ($)
Media—3.4%			
Discovery Communications, Cl. A	49,000	b	3,783,290
Scripps Networks Interactive, Cl. A	35,650		2,379,994
Time Warner Cable	18,000		2,024,640
			8,187,924
Pharmaceuticals, Biotech & Life Sciences—12.6%			
Agilent Technologies	58,900		2,518,564
Allergan	11,600		977,184
AstraZeneca, ADR	49,950		2,362,635
Biogen Idec	20,000	b	4,304,000
Bristol-Myers Squibb	104,700		4,679,043
Eli Lilly & Co.	43,900		2,156,368
Life Technologies	75,850	b	5,613,658
Merck & Co.	54,650		2,538,493
Novartis, ADR	40,400		2,856,684
Waters	22,650	b	2,266,132
			30,272,761
Retailing—4.5%			
Bed Bath & Beyond	28,600	b	2,027,740
Gap	64,550		2,693,672
Nordstrom	47,200		2,829,168
O'Reilly Automotive	18,300	b	2,060,946
The TJX Companies	23,650		1,183,919
			10,795,445
Semiconductors & Semiconductor Equipment—4.2%			
Applied Materials	301,350		4,493,129
Intel	130,800		3,167,976
LSI	343,350	b	2,451,519
			10,112,624
Software & Services—10.2%			
Accenture, Cl. A	18,900		1,360,044
BMC Software	24,750	b	1,117,215
CA	70,150		2,008,394
International Business Machines	28,575		5,460,968
Intuit	48,900		2,984,367

Common Stocks (continued)	Shares		Value ($)
Software & Services (continued)			
Microsoft	192,350		6,641,846
Oracle	116,175		3,568,896
Western Union	84,675		1,448,789
			24,590,519
Technology Hardware & Equipment—7.5%			
Apple	12,300		4,871,784
Avnet	42,125	b	1,415,400
Cisco Systems	197,575		4,803,048
EMC	152,475		3,601,460
Motorola Solutions	55,650		3,212,675
			17,904,367
Telecommunication Services—4.9%			
AT&T	122,250		4,327,650
Verizon Communications	145,450		7,321,953
			11,649,603
Transportation—1.1%			
Norfolk Southern	17,900		1,300,435
Union Pacific	8,400		1,295,952
			2,596,387
Utilities—2.2%			
Consolidated Edison	46,050		2,685,176
Pinnacle West Capital	45,550		2,526,659
			5,211,835
Total Common Stocks (cost $185,412,050)			**238,159,233**

Other Investment—.9%			
Registered Investment Company;			
Dreyfus Institutional Preferred Plus Money Market Fund (cost $2,234,893)	2,234,893	c	**2,234,893**

Investment of Cash Collateral for Securities Loaned—1.2%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Fund (cost $2,882,286)	2,882,286 [c]	**2,882,286**
Total Investments (cost $190,529,229)	**101.3%**	**243,276,412**
Liabilities, Less Cash and Receivables	**(1.3%)**	**(3,113,279)**
Net Assets	**100.0%**	**240,163,133**

ADR—American Depository Receipts

[a] *Security, or portion thereof, on loan. At June 30, 2013, the value of the fund's securities on loan was $2,841,412 and the value of the collateral held by the fund was $2,912,192, consisting of cash collateral of $2,882,286 and U.S. Government & Agency securities valued at $29,906.*

[b] *Non-income producing security.*

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

Portfolio Summary (Unaudited)†

	Value (%)		Value (%)
Pharmaceuticals, Biotech & Life Sciences	12.6	Food & Staples Retailing	2.9
Software & Services	10.2	Food, Beverage & Tobacco	2.7
Energy	9.3	Materials	2.3
Technology Hardware & Equipment	7.5	Insurance	2.2
Banks	6.7	Utilities	2.2
Capital Goods	6.0	Money Market Investments	2.1
Diversified Financials	5.7	Consumer Services	1.8
Telecommunication Services	4.9	Automobiles & Components	1.5
Retailing	4.5	Commercial & Professional Services	1.5
Health Care Equipment & Services	4.2	Transportation	1.1
Semiconductors & Semiconductor Equipment	4.2	Consumer Durables & Apparel	.9
Media	3.4	Household & Personal Products	.9
			101.3

† *Based on net assets.*

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2013 (Unaudited)

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments (including securities on loan, valued at $2,841,412)—Note 1(b):		
Unaffiliated issuers	185,412,050	238,159,233
Affiliated issuers	5,117,179	5,117,179
Cash		111,233
Dividends and securities lending income receivable		121,287
Prepaid expenses		4,210
		243,513,142
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(c)		167,875
Liability for securities on loan—Note 1(b)		2,882,286
Payable for shares of Common Stock redeemed		236,631
Accrued expenses		63,217
		3,350,009
Net Assets ($)		**240,163,133**
Composition of Net Assets ($):		
Paid-in capital		183,045,436
Accumulated undistributed investment income—net		1,470,148
Accumulated net realized gain (loss) on investments		2,900,366
Accumulated net unrealized appreciation (depreciation) on investments		52,747,183
Net Assets ($)		**240,163,133**

Net Asset Value Per Share	Initial Shares	Service Shares
Net Assets ($)	232,697,328	7,465,805
Shares Outstanding	6,099,526	196,902
Net Asset Value Per Share ($)	**38.15**	**37.92**

See notes to financial statements.

STATEMENT OF OPERATIONS

Six Months Ended June 30, 2013 (Unaudited)

Investment Income ($):	
Income:	
Cash dividends (net of $23,070 foreign taxes withheld at source):	
Unaffiliated issuers	2,429,272
Affiliated issuers	615
Income from securities lending—Note 1(b)	8,442
Total Income	**2,438,329**
Expenses:	
Management fee—Note 3(a)	867,280
Professional fees	44,516
Prospectus and shareholders' reports	24,792
Custodian fees—Note 3(c)	11,066
Distribution fees—Note 3(b)	8,974
Directors' fees and expenses—Note 3(d)	4,223
Loan commitment fees—Note 2	318
Miscellaneous	5,207
Total Expenses	**966,376**
Less—reduction in fees due to earnings credits—Note 3(c)	(6)
Net Expenses	**966,370**
Investment Income—Net	**1,471,959**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	8,660,670
Net unrealized appreciation (depreciation) on investments	24,097,218
Net Realized and Unrealized Gain (Loss) on Investments	**32,757,888**
Net Increase in Net Assets Resulting from Operations	**34,229,847**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended June 30, 2013 (Unaudited)	Year Ended December 31, 2012
Operations ($):		
Investment income—net	1,471,959	2,983,799
Net realized gain (loss) on investments	8,660,670	5,162,418
Net unrealized appreciation (depreciation) on investments	24,097,218	16,937,445
Net Increase (Decrease) in Net Assets Resulting from Operations	**34,229,847**	**25,083,662**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(2,903,989)	(1,775,288)
Service Shares	(77,437)	(37,298)
Total Dividends	**(2,981,426)**	**(1,812,586)**
Capital Stock Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	8,949,050	10,025,466
Service Shares	405,375	932,920
Dividends reinvested:		
Initial Shares	2,903,989	1,775,288
Service Shares	77,437	37,298
Cost of shares redeemed:		
Initial Shares	(16,809,227)	(35,033,427)
Service Shares	(546,929)	(1,254,125)
Increase (Decrease) in Net Assets from Capital Stock Transactions	**(5,020,305)**	**(23,516,580)**
Total Increase (Decrease) in Net Assets	**26,228,116**	**(245,504)**
Net Assets ($):		
Beginning of Period	213,935,017	214,180,521
End of Period	**240,163,133**	**213,935,017**
Undistributed investment income—net	1,470,148	2,979,615

	Six Months Ended June 30, 2013 (Unaudited)	Year Ended December 31, 2012
Capital Share Transactions:		
Initial Shares		
Shares sold	240,606	304,016
Shares issued for dividends reinvested	79,846	51,894
Shares redeemed	(458,986)	(1,073,072)
Net Increase (Decrease) in Shares Outstanding	**(138,534)**	**(717,162)**
Service Shares		
Shares sold	11,197	28,853
Shares issued for dividends reinvested	2,140	1,096
Shares redeemed	(14,923)	(39,083)
Net Increase (Decrease) in Shares Outstanding	**(1,586)**	**(9,134)**

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, 2013 (Unaudited)	Year Ended December 31, 2012	2011	2010	2009	2008
Per Share Data ($):						
Net asset value, beginning of period	33.24	29.91	29.90	26.26	19.86	30.50
Investment Operations:						
Investment income—net[a]	.23	.44	.24	.25	.21	.19
Net realized and unrealized gain (loss) on investments	5.16	3.15	.04	3.62	6.40	(10.64)
Total from Investment Operations	5.39	3.59	.28	3.87	6.61	(10.45)
Distributions:						
Dividends from investment income—net	(.48)	(.26)	(.27)	(.23)	(.21)	(.19)
Net asset value, end of period	38.15	33.24	29.91	29.90	26.26	19.86
Total Return (%)	16.27[b]	11.98	.90	14.82	33.75	(34.42)
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	.83[c]	.85	.85	.89	.89	.85
Ratio of net expenses to average net assets	.83[c]	.85	.85	.89	.89	.85
Ratio of net investment income to average net assets	1.28[c]	1.34	.80	.93	.97	.72
Portfolio Turnover Rate	19.12[b]	48.84	67.88	32.75	34.00	31.74
Net Assets, end of period ($ x 1,000)	232,697	207,383	208,013	227,893	222,600	184,813

[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, 2013 (Unaudited)	Year Ended December 31, 2012	2011	2010	2009	2008
Per Share Data ($):						
Net asset value, beginning of period	33.01	29.70	29.71	26.10	19.71	30.25
Investment Operations:						
Investment income—net[a]	.18	.36	.17	.18	.16	.12
Net realized and unrealized gain (loss) on investments	5.12	3.13	.02	3.60	6.37	(10.55)
Total from Investment Operations	5.30	3.49	.19	3.78	6.53	(10.43)
Distributions:						
Dividends from investment income—net	(.39)	(.18)	(.20)	(.17)	(.14)	(.11)
Net asset value, end of period	37.92	33.01	29.70	29.71	26.10	19.71
Total Return (%)	16.11[b]	11.70	.65	14.54	33.44	(34.58)
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	1.09[c]	1.10	1.10	1.14	1.14	1.10
Ratio of net expenses to average net assets	1.09[c]	1.10	1.10	1.14	1.14	1.10
Ratio of net investment income to average net assets	1.02[c]	1.09	.55	.68	.72	.47
Portfolio Turnover Rate	19.12[b]	48.84	67.88	32.75	34.00	31.74
Net Assets, end of period ($ x 1,000)	7,466	6,552	6,167	6,494	6,070	5,008

[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 Plan fee and Service shares are subject to a Distribution Plan 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 (the "Board"). 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 within Level 2 or 3 of the fair value hierarchy 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, 2013 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 Common Stocks†	230,630,992	–	–	**230,630,992**
Equity Securities–Foreign Common Stocks†	7,528,241	–	–	**7,528,241**
Mutual Funds	5,117,179	–	–	**5,117,179**

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

At June 30, 2013, there were no transfers 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 or U.S. Government and Agency securities. The fund is entitled to receive all dividends, interest and distributions on securities loaned, in addition to income earned as a result of the lending transaction. Should a borrower fail to return the securities in a timely manner, The Bank of New York Mellon is required to replace the securities for the benefit of the fund and credit the fund with the market value of the unreturned securities and is subrogated to the fund's rights against the borrower and the collateral. During the period ended June 30, 2013, The Bank of New York Mellon earned $3,618 from lending portfolio securities, pursuant to the securities lending agreement.

(c) Affiliated issuers: Investments in other investment companies advised by Dreyfus are defined as "affiliated" under the Act. Investments in affiliated investment companies during the period ended June 30, 2013 were as follows:

Affiliated Investment Company	Value 12/31/2012 ($)	Purchases ($)	Sales ($)	Value 6/30/2013 ($)	Net Assets (%)
Dreyfus Institutional Preferred Plus Money Market Fund	1,964,219	8,265,088	7,994,414	2,234,893	.9
Dreyfus Institutional Cash Advantage Fund	8,465,115	16,976,277	22,559,106	2,882,286	1.2
Total	**10,429,334**	**25,241,365**	**30,553,520**	**5,117,179**	**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, 2013, 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 tax year in the three-year period ended December 31, 2012 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 $3,414,859 available for federal income tax purposes to be applied against future net realized capital gains, if any, realized subsequent to December 31, 2012. 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, 2012 was as follows: ordinary income $1,812,586. 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 $210 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, 2013, 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 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 Distribution 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 Distribution Plan are payable without regard to actual expenses incurred. During the period ended June 30, 2013, Service shares were charged $8,974 pursuant to the Distribution 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 its average daily net assets for certain allocated expenses with respect to servicing and/or maintaining Initial shares shareholder accounts.

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.

The fund compensates Dreyfus Transfer, Inc., a wholly-owned subsidiary of the Manager, under a transfer agency agreement for providing transfer agency services for the fund and cash management services related to fund subscriptions and redemptions. During the period ended June 30, 2013, the fund was charged $722 for transfer agency services and $41 for cash management services. Cash management fees were partially offset by earnings credits of $6. These fees are 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, 2013, the fund was charged $11,066 pursuant to the custody agreement.

The fund compensates The Bank of New York Mellon under a cash management agreement for performing certain cash management services related to fund subscriptions and redemptions. During the period ended June 30, 2013, the fund was charged $23 pursuant to the cash management agreement, which is included in Shareholder servicing costs in the Statement of Operations.

During the period ended June 30, 2013, the fund was charged $4,630 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 $149,181, Distribution Plan fees $1,544, Shareholder Services Plan fees $6,200, custodian fees $6,097, Chief Compliance Officer fees $4,630 and transfer agency fees $223.

(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, 2013, amounted to $43,935,120 and $49,903,075, respectively.

At June 30, 2013, accumulated net unrealized appreciation on investments was $52,747,183, consisting of $55,124,223 gross unrealized appreciation and $2,377,040 gross unrealized depreciation.

At June 30, 2013, 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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JUNE 30, 2013

SEMIANNUAL REPORT

DWS VARIABLE SERIES I

DWS Bond 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. 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 the Deutsche Asset & Wealth Management division of Deutsche Bank AG.

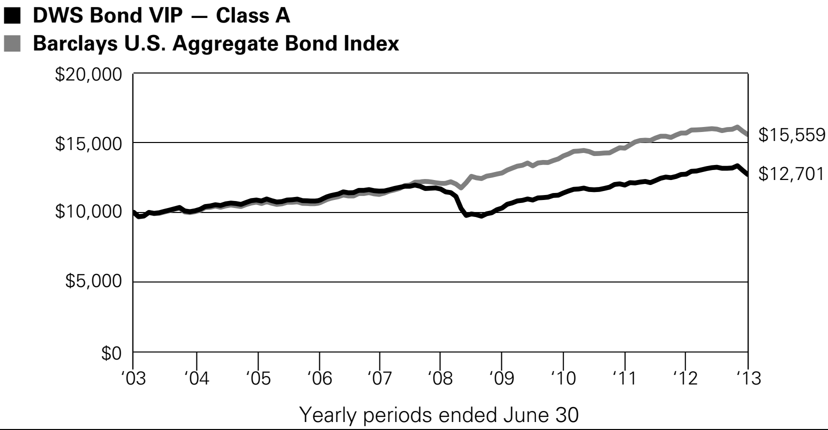
Performance Summary

June 30, 2013 (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, 2013 is 0.58% 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	$9,609	$9,982	$11,162	$10,885	$12,701
	Average annual total return	–3.91%	–0.18%	3.73%	1.71%	2.42%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$9,756	$9,931	$11,090	$12,878	$15,559
	Average annual total return	–2.44%	–0.69%	3.51%	5.19%	4.52%

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)	**6/30/13**	**12/31/12**
Corporate Bonds	38%	35%
Mortgage-Backed Securities Pass-Throughs	36%	34%
Government & Agency Obligations	22%	22%
Commercial Mortgage-Backed Securities	7%	5%
Collateralized Mortgage Obligations	5%	5%
Municipal Bonds and Notes	5%	6%
Loan Participations and Assignments	2%	1%
Asset-Backed	2%	1%
Cash Equivalents and other Assets and Liabilities, net	–17%	–9%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	**6/30/13**	**12/31/12**
AAA	55%	53%
AA	8%	7%
A	8%	8%
BBB	16%	18%
BB or Below	10%	11%
Not Rated	3%	3%
	100%	100%

Interest Rate Sensitivity	**6/30/13**	**12/31/12**
Effective Maturity	9.4 years	7.9 years
Effective Duration	6.1 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

William Chepolis, CFA
John D. Ryan
Gary Russell, CFA
Portfolio Managers

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 37.7%		
Consumer Discretionary 3.0%		
AMC Entertainment, Inc., 8.75%, 6/1/2019	115,000	123,050
APX Group, Inc., 144A, 6.375%, 12/1/2019	15,000	14,250
Asbury Automotive Group, Inc., 144A, 8.375%, 11/15/2020	5,000	5,538
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	25,000	25,250
Avis Budget Car Rental LLC, 144A, 5.5%, 4/1/2023	15,000	14,475
BC Mountain LLC, 144A, 7.0%, 2/1/2021	15,000	15,300
Boyd Gaming Corp., 9.0%, 7/1/2020 (b)	10,000	10,138
British Sky Broadcasting Group PLC, 144A, 3.125%, 11/26/2022	330,000	308,588
Caesar's Entertainment Operating Co., Inc., 8.5%, 2/15/2020	185,000	174,362
Caesar's Operating Escrow LLC, 144A, 9.0%, 2/15/2020	15,000	14,288
CCO Holdings LLC, 6.5%, 4/30/2021	155,000	161,587
CDR DB Sub, Inc., 144A, 7.75%, 10/15/2020	15,000	15,037
Cequel Communications Holdings I LLC, 144A, 6.375%, 9/15/2020	80,000	81,400
Clear Channel Communications, Inc., 144A, 11.25%, 3/1/2021	20,000	20,850
Clear Channel Worldwide Holdings, Inc.:		
Series A, 144A, 6.5%, 11/15/2022	15,000	15,375
Series B, 144A, 6.5%, 11/15/2022	25,000	25,750
Series B, 7.625%, 3/15/2020	75,000	77,625
Cox Communications, Inc., 144A, 3.25%, 12/15/2022	230,000	216,390
Cumulus Media Holdings, Inc., 7.75%, 5/1/2019	5,000	4,888
Delphi Corp., 5.0%, 2/15/2023	20,000	20,550
DIRECTV Holdings LLC, 2.4%, 3/15/2017	1,050,000	1,055,075
DISH DBS Corp., 7.875%, 9/1/2019	90,000	100,800
Griffey Intermediate, Inc., 144A, 7.0%, 10/15/2020	25,000	24,125
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	10,000	10,125
Jo-Ann Stores Holdings, Inc., 144A, 9.75%, 10/15/2019 (PIK)	15,000	15,412
Macy's Retail Holdings, Inc., 3.875%, 1/15/2022	300,000	300,783
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	15,000	14,963
Mediacom Broadband LLC, 6.375%, 4/1/2023	10,000	9,950
Mediacom LLC, 9.125%, 8/15/2019	85,000	91,375
MGM Resorts International:		
6.625%, 12/15/2021	40,000	41,250
6.75%, 10/1/2020 (b)	10,000	10,350
8.625%, 2/1/2019	105,000	118,650
Norcraft Companies LP, 10.5%, 12/15/2015	65,000	67,437
Petco Holdings, Inc., 144A, 8.5%, 10/15/2017 (PIK)	5,000	5,100
Quebecor Media, Inc., 5.75%, 1/15/2023	15,000	14,625
SACI Falabella, 144A, 3.75%, 4/30/2023	200,000	183,000
Serta Simmons Holdings LLC, 144A, 8.125%, 10/1/2020	15,000	15,262
SIWF Merger Sub, Inc., 144A, 6.25%, 6/1/2021	10,000	9,800
Starz LLC, 5.0%, 9/15/2019	10,000	9,925
Taylor Morrison Communities, Inc., 144A, 5.25%, 4/15/2021	15,000	14,250
Viking Cruises Ltd., 144A, 8.5%, 10/15/2022	15,000	16,425
		3,473,373
Consumer Staples 1.4%		
Anadolu Efes Biracilik Ve Malt Sanayii AS, 144A, 3.375%, 11/1/2022	250,000	215,000
B&G Foods, Inc., 4.625%, 6/1/2021	15,000	14,325
Chiquita Brands International, Inc., 144A, 7.875%, 2/1/2021	15,000	15,713
ConAgra Foods, Inc., 3.25%, 9/15/2022	350,000	333,893
Controladora Mabe SA de CV, 144A, 7.875%, 10/28/2019	200,000	214,000
Del Monte Corp., 7.625%, 2/15/2019	25,000	25,687
Hawk Acquisition Sub, Inc., 144A, 4.25%, 10/15/2020	125,000	119,531
JBS U.S.A. LLC, 144A, 8.25%, 2/1/2020	115,000	120,462
Pilgrim's Pride Corp., 7.875%, 12/15/2018	115,000	122,475
Reynolds Group Issuer, Inc.:		
5.75%, 10/15/2020	25,000	25,188
7.125%, 4/15/2019	265,000	279,906
Smithfield Foods, Inc., 6.625%, 8/15/2022	35,000	37,625
Sun Products Corp., 144A, 7.75%, 3/15/2021	25,000	24,813
Tops Holding Corp., 144A, 8.875%, 12/15/2017	5,000	5,413
		1,554,031
Energy 4.4%		
Access Midstream Partners LP, 4.875%, 5/15/2023	15,000	13,913

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

	Principal Amount ($)(a)	Value ($)
Berry Petroleum Co.:		
6.375%, 9/15/2022	15,000	14,944
6.75%, 11/1/2020	15,000	15,525
BreitBurn Energy Partners LP, 7.875%, 4/15/2022	15,000	15,300
Chaparral Energy, Inc., 7.625%, 11/15/2022	25,000	25,500
Chesapeake Energy Corp., 5.75%, 3/15/2023	10,000	10,125
Continental Resources, Inc.:		
144A, 4.5%, 4/15/2023	5,000	4,863
5.0%, 9/15/2022	15,000	15,262
DCP Midstream LLC, 144A, 9.75%, 3/15/2019	760,000	980,120
DCP Midstream Operating LP, 3.875%, 3/15/2023	250,000	234,471
Denbury Resources, Inc., 4.625%, 7/15/2023	35,000	32,287
Eagle Rock Energy Partners LP, 8.375%, 6/1/2019	25,000	25,437
EDC Finance Ltd., 144A, 4.875%, 4/17/2020	200,000	183,000
Enterprise Products Operating LLC, 6.125%, 10/15/2039	460,000	511,557
EP Energy LLC, 7.75%, 9/1/2022	25,000	26,750
EPE Holdings LLC, 144A, 8.125%, 12/15/2017 (PIK)	26,072	26,593
FMC Technologies, Inc., 3.45%, 10/1/2022	300,000	287,380
Halcon Resources Corp.:		
8.875%, 5/15/2021	35,000	33,950
9.75%, 7/15/2020	15,000	14,963
KazMunayGas National Co. JSC, 144A, 5.75%, 4/30/2043	200,000	177,000
Kodiak Oil & Gas Corp., 144A, 5.5%, 1/15/2021	15,000	14,625
Linn Energy LLC, 144A, 6.25%, 11/1/2019	150,000	142,875
MEG Energy Corp., 144A, 6.375%, 1/30/2023	45,000	43,650
Memorial Production Partners LP, 144A, 7.625%, 5/1/2021	25,000	24,625
Midstates Petroleum Co., Inc.:		
144A, 9.25%, 6/1/2021	30,000	28,200
144A, 10.75%, 10/1/2020	15,000	15,075
Oasis Petroleum, Inc.:		
6.5%, 11/1/2021	75,000	76,875
6.875%, 1/15/2023	15,000	15,450
Odebrecht Drilling Norbe VIII/IX Ltd., 144A, 6.35%, 6/30/2021	95,000	95,950
Offshore Group Investment Ltd.:		
144A, 7.125%, 4/1/2023	25,000	24,562
7.5%, 11/1/2019 (b)	40,000	41,700
ONEOK Partners LP, 6.15%, 10/1/2016	878,000	1,000,967
Pacific Drilling SA, 144A, 5.375%, 6/1/2020	15,000	14,025
Plains Exploration & Production Co., 6.75%, 2/1/2022	5,000	5,299
Range Resources Corp., 5.0%, 3/15/2023	5,000	4,888
SandRidge Energy, Inc., 7.5%, 3/15/2021	55,000	52,525
Talos Production LLC, 144A, 9.75%, 2/15/2018	25,000	23,750
Tesoro Corp., 5.375%, 10/1/2022	10,000	10,125
Transocean, Inc., 3.8%, 10/15/2022	555,000	528,666
Transportadora de Gas Internacional SA ESP, 144A, 5.7%, 3/20/2022	200,000	206,500
		5,019,272
Financials 15.2%		
American International Group, Inc., 4.875%, 6/1/2022 (b)	400,000	426,370
American Tower Corp., (REIT), 3.5%, 1/31/2023	280,000	256,389
Atlantic Finance Ltd., (REIT), 144A, 10.75%, 5/27/2014	500,000	528,662
Bank of America Corp., 3.3%, 1/11/2023	800,000	756,118
Barclays Bank PLC, 7.625%, 11/21/2022 (b)	1,090,000	1,069,562
BBVA Bancomer SA, 144A, 6.75%, 9/30/2022	200,000	216,000
CNA Financial Corp., 5.75%, 8/15/2021	500,000	562,759
CNH Capital LLC, 144A, 3.625%, 4/15/2018	15,000	14,288
Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, 3.95%, 11/9/2022	525,000	502,043
Development Bank of Kazakhstan JSC, Series 3, 6.5%, 6/3/2020	500,000	525,000
E*TRADE Financial Corp.:		
6.375%, 11/15/2019	40,000	40,600
6.75%, 6/1/2016	205,000	210,638
Ford Motor Credit Co., LLC, 3.0%, 6/12/2017	485,000	486,022
General Electric Capital Corp., 3.1%, 1/9/2023	1,000,000	944,666
Glencore Funding LLC, 144A, 4.125%, 5/30/2023	100,000	89,188
Hartford Financial Services Group, Inc.:		
4.3%, 4/15/2043	615,000	532,674
6.0%, 1/15/2019	117,000	131,894
ING Bank NV, 144A, 2.0%, 9/25/2015	1,310,000	1,321,109
International Lease Finance Corp.:		
4.625%, 4/15/2021	25,000	23,000
6.25%, 5/15/2019	5,000	5,138
Intesa Sanpaolo SpA, 3.875%, 1/16/2018	895,000	859,389
Jefferies Group LLC, 5.125%, 1/20/2023 (b)	300,000	297,687
JPMorgan Chase & Co., 5.125%, 9/15/2014	1,100,000	1,154,080
Loews Corp., 2.625%, 5/15/2023	160,000	145,534
Macquarie Bank Ltd., 144A, 3.45%, 7/27/2015	525,000	544,068
Mizuho Corporate Bank Ltd., 144A, 2.95%, 10/17/2022	500,000	458,549

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

		Principal Amount ($)(a)	Value ($)
Morgan Stanley:			
3.75%, 2/25/2023 (b)		835,000	798,496
4.1%, 5/22/2023		85,000	78,533
Neuberger Berman Group LLC, 144A, 5.875%, 3/15/2022		155,000	158,100
Nordea Bank AB, 144A, 4.25%, 9/21/2022		555,000	547,549
OPB Finance Trust, Series C, 2.9%, 5/24/2023	CAD	380,000	343,651
PNC Bank NA, 6.875%, 4/1/2018		200,000	239,872
Principal Financial Group, Inc., 3.3%, 9/15/2022		605,000	587,715
Royal Bank of Scotland Group PLC, 6.1%, 6/10/2023 (b)		100,000	94,871
Skandinaviska Enskilda Banken AB, 144A, 1.375%, 5/29/2018 (b)		640,000	616,512
SLM Corp., 5.5%, 1/25/2023 (b)		630,000	599,889
The Goldman Sachs Group, Inc., 6.0%, 6/15/2020		880,000	988,788
Turkiye Vakiflar Bankasi Tao, 144A, 3.75%, 4/15/2018		250,000	235,000
			17,390,403

Health Care 1.4%

	Principal Amount ($)(a)	Value ($)
Agilent Technologies, Inc., 3.2%, 10/1/2022	300,000	278,110
Biomet, Inc.:		
6.5%, 8/1/2020	25,000	25,766
6.5%, 10/1/2020 (b)	5,000	4,987
Community Health Systems, Inc., 7.125%, 7/15/2020	125,000	128,750
Fresenius Medical Care U.S. Finance II, Inc., 144A, 5.875%, 1/31/2022	10,000	10,525
HCA, Inc.:		
6.5%, 2/15/2020	235,000	254,241
7.5%, 2/15/2022	190,000	210,425
IMS Health, Inc., 144A, 6.0%, 11/1/2020	15,000	15,262
Laboratory Corp. of America Holdings, 3.75%, 8/23/2022	265,000	253,138
Mallinckrodt International Finance SA, 144A, 4.75%, 4/15/2023	110,000	104,787
Sky Growth Acquisition Corp., 144A, 7.375%, 10/15/2020	10,000	10,250
Tenet Healthcare Corp.:		
144A, 4.5%, 4/1/2021	5,000	4,663
6.25%, 11/1/2018	60,000	63,150
Zoetis, Inc., 144A, 3.25%, 2/1/2023	220,000	209,026
		1,573,080

Industrials 1.6%

	Principal Amount ($)(a)	Value ($)
Accuride Corp., 9.5%, 8/1/2018	5,000	5,088
Air Lease Corp., 4.75%, 3/1/2020	20,000	19,300
Alphabet Holding Co., Inc., 7.75%, 11/1/2017 (PIK)	15,000	15,375
BE Aerospace, Inc., 6.875%, 10/1/2020	55,000	59,400
Belden, Inc., 144A, 5.5%, 9/1/2022	25,000	24,562
Bombardier, Inc., 144A, 5.75%, 3/15/2022	175,000	173,687
Clean Harbors, Inc., 5.125%, 6/1/2021	15,000	15,113
DigitalGlobe, Inc., 144A, 5.25%, 2/1/2021	10,000	9,600
Ferreycorp SAA, 144A, 4.875%, 4/26/2020	200,000	188,000
FTI Consulting, Inc., 144A, 6.0%, 11/15/2022	15,000	15,187
GenCorp, Inc., 144A, 7.125%, 3/15/2021	50,000	51,750
Georgian Railway JSC, 144A, 7.75%, 7/11/2022	200,000	216,140
Grupo KUO SAB De CV, 144A, 6.25%, 12/4/2022	200,000	204,750
Ingersoll-Rand Global Holding Co., Ltd., 144A, 2.875%, 1/15/2019	10,000	9,865
Kenan Advantage Group, Inc., 144A, 8.375%, 12/15/2018	25,000	26,000
Meritor, Inc., 6.75%, 6/15/2021	10,000	9,550
Navios Maritime Holdings, Inc., 8.875%, 11/1/2017	15,000	15,525
Navios South American Logistics, Inc., 144A, 9.25%, 4/15/2019	5,000	5,363
Owens Corning, Inc., 4.2%, 12/15/2022	190,000	184,108
Ply Gem Industries, Inc., 9.375%, 4/15/2017	6,000	6,345
Total System Services, Inc., 3.75%, 6/1/2023	30,000	27,855
TransDigm, Inc.:		
144A, 7.5%, 7/15/2021 (c)	20,000	20,450
7.75%, 12/15/2018	25,000	26,312
Transnet SOC Ltd., 144A, 4.0%, 7/26/2022	500,000	437,200
U.S. Airways Group, Inc., 6.125%, 6/1/2018	15,000	14,175
United Rentals North America, Inc.:		
6.125%, 6/15/2023	5,000	4,975
7.625%, 4/15/2022	85,000	92,012
Watco Companies LLC, 144A, 6.375%, 4/1/2023	15,000	14,925
		1,892,612

Information Technology 2.0%

	Principal Amount ($)(a)	Value ($)
Alliance Data Systems Corp., 144A, 5.25%, 12/1/2017	15,000	15,450
CDW LLC, 8.5%, 4/1/2019	160,000	172,000
CyrusOne LP, 144A, 6.375%, 11/15/2022	5,000	5,125
Equinix, Inc.:		
5.375%, 4/1/2023	45,000	44,100
7.0%, 7/15/2021	140,000	151,900
First Data Corp.:		
144A, 6.75%, 11/1/2020	105,000	106,838
144A, 7.375%, 6/15/2019	190,000	195,225
144A, 10.625%, 6/15/2021	30,000	29,625
Fiserv, Inc., 3.5%, 10/1/2022	715,000	678,623
Freescale Semiconductor, Inc., 144A, 9.25%, 4/15/2018	80,000	86,200
Hewlett-Packard Co., 3.3%, 12/9/2016	715,000	742,204

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

		Principal Amount ($)(a)	Value ($)
Hughes Satellite Systems Corp.:			
6.5%, 6/15/2019		15,000	15,900
7.625%, 6/15/2021		50,000	53,125
IAC/InterActiveCorp., 144A, 4.75%, 12/15/2022		15,000	14,175
			2,310,490
Materials 3.6%			
Anglo American Capital PLC, 144A, 4.125%, 9/27/2022		750,000	708,358
ArcelorMittal, 6.125%, 6/1/2018		500,000	515,000
Axiall Corp., 144A, 4.875%, 5/15/2023		5,000	4,750
Barrick Gold Corp., 144A, 2.5%, 5/1/2018		170,000	152,555
Bluescope Steel Ltd., 144A, 7.125%, 5/1/2018		10,000	10,150
BOE Merger Corp., 144A, 9.5%, 11/1/2017 (PIK)		30,000	30,600
Braskem America Finance Co., 144A, 7.125%, 7/22/2041		250,000	236,562
Eagle Spinco, Inc., 144A, 4.625%, 2/15/2021		10,000	9,600
FMG Resources (August 2006) Pty Ltd., 144A, 6.0%, 4/1/2017 (b)		375,000	364,687
FQM Akubra, Inc.:			
144A, 7.5%, 6/1/2021		40,000	38,300
144A, 8.75%, 6/1/2020		25,000	25,563
Freeport-McMoRan Copper & Gold, Inc., 3.55%, 3/1/2022		790,000	717,602
GTL Trade Finance, Inc., 144A, 7.25%, 10/20/2017		200,000	216,000
Hexion U.S. Finance Corp.:			
6.625%, 4/15/2020		75,000	74,813
8.875%, 2/1/2018		35,000	35,700
Huntsman International LLC:			
4.875%, 11/15/2020 (b)		15,000	14,813
8.625%, 3/15/2021		70,000	76,825
IAMGOLD Corp., 144A, 6.75%, 10/1/2020		5,000	4,225
Novelis, Inc., 8.75%, 12/15/2020		265,000	284,212
Polymer Group, Inc., 7.75%, 2/1/2019		65,000	67,600
PolyOne Corp., 144A, 5.25%, 3/15/2023		35,000	34,475
Polyus Gold International Ltd., 144A, 5.625%, 4/29/2020		200,000	194,000
Sealed Air Corp., 144A, 5.25%, 4/1/2023		10,000	9,725
Tronox Finance LLC, 144A, 6.375%, 8/15/2020		15,000	14,138
Votorantim Overseas IV, 144A, 7.75%, 6/24/2020		250,000	279,375
			4,119,628
Telecommunication Services 3.2%			
America Movil SAB de CV, Series 12, 6.45%, 12/5/2022	MXN	2,000,000	149,481
CC Holdings GS V LLC, 3.849%, 4/15/2023		490,000	462,048

	Principal Amount ($)(a)	Value ($)
CenturyLink, Inc., Series V, 5.625%, 4/1/2020	5,000	5,050
Cincinnati Bell, Inc.:		
8.375%, 10/15/2020	210,000	215,775
8.75%, 3/15/2018	95,000	95,119
Cricket Communications, Inc., 7.75%, 10/15/2020	190,000	182,400
Digicel Ltd., 144A, 8.25%, 9/1/2017	295,000	306,800
Frontier Communications Corp.:		
7.125%, 1/15/2023	110,000	109,450
7.625%, 4/15/2024	5,000	5,013
8.5%, 4/15/2020	280,000	308,700
Intelsat Jackson Holdings SA:		
144A, 5.5%, 8/1/2023	35,000	32,900
144A, 6.625%, 12/15/2022	15,000	14,550
7.5%, 4/1/2021	265,000	278,250
Intelsat Luxembourg SA, 144A, 7.75%, 6/1/2021	45,000	45,450
Level 3 Communications, Inc., 8.875%, 6/1/2019 (b)	80,000	83,200
Level 3 Financing, Inc., 7.0%, 6/1/2020	160,000	159,600
MetroPCS Wireless, Inc., 6.625%, 11/15/2020	175,000	181,562
Millicom International Cellular SA, 144A, 4.75%, 5/22/2020	200,000	190,052
SBA Communications Corp., 144A, 5.625%, 10/1/2019	15,000	14,850
Sprint Nextel Corp.:		
6.0%, 11/15/2022	25,000	24,500
8.375%, 8/15/2017	60,000	67,350
Telefonica Emisiones SAU, 4.57%, 4/27/2023	170,000	162,741
Telemar Norte Leste SA, 144A, 5.5%, 10/23/2020	200,000	186,000
tw telecom holdings, Inc., 5.375%, 10/1/2022	15,000	14,888
Windstream Corp.:		
6.375%, 8/1/2023	15,000	14,025
7.5%, 6/1/2022	10,000	10,200
7.5%, 4/1/2023	5,000	5,075
7.75%, 10/15/2020 (b)	330,000	341,550
7.75%, 10/1/2021	20,000	20,700
		3,687,279
Utilities 1.9%		
AES Corp., 8.0%, 10/15/2017	20,000	22,500
American Electric Power Co., Inc., Series F, 2.95%, 12/15/2022	410,000	381,667
Calpine Corp.:		
144A, 7.5%, 2/15/2021	205,000	218,837
144A, 7.875%, 7/31/2020	10,000	10,850
DTE Energy Co., 7.625%, 5/15/2014	300,000	317,791
Electricite de France SA, 144A, 5.25%, 1/29/2049	400,000	382,400
Majapahit Holding BV, REG S, 7.75%, 10/17/2016	100,000	110,750
Mexico Generadora de Energia S de rl, 144A, 5.5%, 12/6/2032	200,000	188,000

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

	Principal Amount ($)(a)	Value ($)
PPL Energy Supply LLC, 4.6%, 12/15/2021	500,000	508,812
		2,141,607
Total Corporate Bonds (Cost $43,989,222)		**43,161,775**

Mortgage-Backed Securities Pass-Throughs 36.2%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp.:		
3.5%, 4/1/2042	8,084,982	8,207,204
4.0%, 8/1/2039	851,484	890,898
5.5%, with various maturities from 10/1/2023 until 8/1/2024	136,868	148,382
6.5%, 3/1/2026	381,794	424,209
Federal National Mortgage Association:		
2.627%*, 8/1/2037	231,251	246,263
3.0%, 9/1/2042 (c)	4,500,000	4,400,156
3.5%, 1/1/2042 (c)	10,000,000	10,156,250
4.0%, 9/1/2040	682,590	713,547
4.5%, 10/1/2033	156,524	165,909
5.0%, with various maturities from 2/1/2021 until 8/1/2040	2,206,088	2,392,850
5.004%*, 9/1/2038	109,748	115,526
5.5%, with various maturities from 12/1/2032 until 4/1/2037	1,288,463	1,398,486
6.0%, with various maturities from 4/1/2024 until 3/1/2025	741,809	816,927
6.5%, with various maturities from 3/1/2017 until 12/1/2037	897,093	999,531
8.0%, 9/1/2015	6,286	6,584
Government National Mortgage Association, 3.5%, 4/1/2042 (c)	10,000,000	10,267,188
Total Mortgage-Backed Securities Pass-Throughs (Cost $41,638,038)		**41,349,910**

Asset-Backed 1.6%

Credit Card Receivables

	Principal Amount ($)(a)	Value ($)
Citibank Omni Master Trust, "A14", Series 2009-A14A, 144A, 2.943%*, 8/15/2018 (Cost $1,842,012)	1,750,000	**1,797,185**

Commercial Mortgage-Backed Securities 7.3%

	Principal Amount ($)(a)	Value ($)
Banc of America Large Loan, Inc., "HLTN", Series 2010-HLTN, 144A, 2.493%*, 11/15/2015	1,698,067	1,699,385
Banc of America Merrill Lynch Commercial Mortgage, Inc., "A2", Series 2007-2, 5.634%*, 4/10/2049	33,112	33,479
Bear Stearns Commercial Mortgage Securities, Inc., "A4", Series 2007- PW16, 5.905%*, 6/11/2040	240,000	271,099
Commercial Mortgage Trust, "A4", Series 2007-GG9, 5.444%, 3/10/2039	1,750,000	1,934,331
Del Coronado Trust, "M", Series 2013-HDMZ, 144A, 5.193%*, 3/15/2018	125,000	125,650
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"C", Series 2012-HSBC, 144A, 4.021%, 7/5/2032	230,000	222,646
"A4", Series 2007-C1, 5.716%, 2/15/2051	960,000	1,072,087
"F", Series 2007-LD11, 6.003%*, 6/15/2049	650,000	65,096
"G", Series 2007-LD11, 144A, 6.003%*, 6/15/2049	760,000	60,829
"H", Series 2007-LD11, 144A, 6.003%*, 6/15/2049	460,000	32,207
LB-UBS Commercial Mortgage Trust, "A4", Series 2007-C6, 5.858%, 7/15/2040	1,315,000	1,456,263
Merrill Lynch Mortgage Trust, "ASB", Series 2007-C1, 6.038%*, 6/12/2050	1,238,421	1,316,391
Wachovia Bank Commercial Mortgage Trust, "H", Series 2007-C32, 144A, 5.937%*, 6/15/2049	770,000	57,750
Total Commercial Mortgage-Backed Securities (Cost $10,247,348)		**8,347,213**

Collateralized Mortgage Obligations 5.3%

	Principal Amount ($)(a)	Value ($)
Countrywide Home Loans, "A2", Series 2006-1, 6.0%, 3/25/2036	452,297	401,552
CS First Boston Mortgage Securities Corp., "10A3", Series 2005-10, 6.0%, 11/25/2035	135,636	92,983
Federal Home Loan Mortgage Corp.:		
"PE", Series 2898, 5.0%, 5/15/2033	118,787	121,341
"JS", Series 3572, Interest Only, 6.608%*, 9/15/2039	887,444	137,524
Federal National Mortgage Association:		
"QD", Series 2005-29, 5.0%, 8/25/2033	263,761	271,299
"EG", Series 2005-22, 5.0%, 11/25/2033	441,461	455,793
"TC", Series 2007-77, 5.5%, 9/25/2034	102,155	103,035
"SI", Series 2007-23, Interest Only, 6.577%*, 3/25/2037	380,087	67,217
Government National Mortgage Association:		
"DI", Series 2012-102, Interest Only, 2.5%, 8/20/2027	4,527,220	487,807

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

		Principal Amount ($)(a)	Value ($)
"PL", Series 2013-19, 2.5%, 2/20/2043		684,500	583,950
"HX", Series 2012-91, 3.0%, 9/20/2040		421,863	433,682
"GI", Series 2010-89, Interest Only, 4.5%, 5/20/2039		1,757,013	236,565
"PD", Series 2011-25, 4.5%, 10/16/2039		1,000,000	1,065,524
"EI", Series 2011-162, Interest Only, 4.5%, 5/20/2040		1,980,628	322,770
"DI", Series 2011-40, Interest Only, 4.5%, 12/20/2040		4,595,433	649,898
"IM", Series 2010-87, Interest Only, 4.75%, 3/20/2036		1,623,518	105,356
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039		287,480	46,127
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039		567,912	92,510
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039		235,121	43,374
"AI", Series 2007-38, Interest Only, 6.268%*, 6/16/2037		144,427	19,582
"D", Series 1996-7, 7.5%, 5/16/2026		133,058	153,493
MASTR Alternative Loans Trust:			
"5A1", Series 2005-1, 5.5%, 1/25/2020		170,534	173,911
"8A1", Series 2004-3, 7.0%, 4/25/2034		9,469	9,554
Total Collateralized Mortgage Obligations (Cost $6,140,899)			**6,074,847**

Government & Agency Obligations 22.4%

Other Government Related (d) 1.7%

KFW, 1.875%, 6/13/2018	CAD	965,000	898,036
Queensland Treasury Corp., Series 23, 4.25%, 7/21/2023	AUD	1,230,000	1,075,508
			1,973,544

Sovereign Bonds 2.1%

Government of Japan, Series 144, 1.5%, 3/20/2033	JPY	108,000,000	1,054,148
Republic of Belarus, REG S, 8.75%, 8/3/2015		500,000	501,250
Republic of El Salvador, REG S, 8.25%, 4/10/2032		40,000	41,700
Russian Federation:			
Series 6204, 7.5%, 3/15/2018	RUB	3,400,000	106,717
Series 6207, 8.15%, 2/3/2027	RUB	10,200,000	318,825
United Mexican States:			
Series M, 7.75%, 5/29/2031	MXN	2,700,000	230,284
Series M 20, 8.5%, 5/31/2029	MXN	1,350,000	124,188
			2,377,112

	Principal Amount ($)(a)	Value ($)

U.S. Government Sponsored Agencies 0.8%

Federal Home Loan Mortgage Corp., 2.375%, 1/13/2022	350,000	338,701
Federal National Mortgage Association, 0.875%, 5/21/2018 (b)	630,000	610,044
		948,745

U.S. Treasury Obligations 17.8%

U.S. Treasury Bill, 0.1%**, 9/5/2013 (e)	433,000	432,984
U.S. Treasury Bond, 3.75%, 8/15/2041	2,500,000	2,639,452
U.S. Treasury Notes:		
0.75%, 6/15/2014 (f)	2,500,000	2,513,183
1.0%, 8/31/2016	14,650,000	14,763,303
		20,348,922
Total Government & Agency Obligations (Cost $26,147,336)		**25,648,323**

Loan Participations and Assignments 1.7%

Sovereign Loans

Gazprom Neft OAO, 144A, 4.375%, 9/19/2022	250,000	228,963
Gazprom OAO, 144A, 9.25%, 4/23/2019	100,000	120,500
National JSC Naftogaz of Ukraine, 9.5%, 9/30/2014	250,000	249,375
Russian Railways, 5.739%, 4/3/2017	400,000	424,000
Uralkali OJSC, 144A, 3.723%, 4/30/2018 (b)	200,000	192,250
Vimpel Communications, 144A, 9.125%, 4/30/2018	200,000	227,500
VTB Bank OJSC, 144A, 6.0%, 4/12/2017	500,000	520,000
Total Loan Participations and Assignments (Cost $2,018,178)		**1,962,588**

Municipal Bonds and Notes 5.1%

Gwinnett County, GA, Development Authority Revenue, Gwinnett Stadium Project, 6.4%, 1/1/2028	655,000	724,233
Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018	1,715,001	1,781,234
Michigan, Western Michigan University Revenue, 4.41%, 11/15/2014, INS: AMBAC	320,000	322,640
New Jersey, Economic Development Authority Revenue, Series B, 6.5%, 11/1/2013, INS: AGC	860,000	873,949
New Jersey, State Economic Development Authority Revenue, Series B, 6.5%, 11/1/2014, INS: AGC	585,000	619,802
Port Authority New York & New Jersey, One Hundred Fiftieth Series, 4.75%, 9/15/2016	930,000	1,013,598
Virgin Islands, Port Authority Marine Revenue, Series B, 5.08%, 9/1/2013, INS: AGMC	160,000	160,304

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

	Principal Amount ($)(a)	Value ($)
Washington, Central Puget Sound Regional Transit Authority, Sales & Use Tax Revenue, Series A, 5.0%, 11/1/2036	285,000	303,236
Total Municipal Bonds and Notes (Cost $5,503,791)		**5,798,996**

	Shares	Value ($)

Preferred Stock 0.0%

Financials

Ally Financial, Inc., 144A, 7.0% (Cost $14,594)	15	**14,258**

	Contracts	Value ($)

Call Options Purchased 0.0%

Options on Exchange-Traded Futures Contracts

10 Year U.S. Treasury Note Future, Expiration Date 8/23/2013, Strike Price $132.5 (Cost $12,062)	24	**1,125**

	Shares	Value ($)

Securities Lending Collateral 4.5%

Daily Assets Fund Institutional, 0.10% (g) (h) (Cost $5,169,839)	5,169,839	**5,169,839**

Cash Equivalents 3.3%

Central Cash Management Fund, 0.07% (g) (Cost $3,794,189)	3,794,189	**3,794,189**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $146,517,508)†	125.1	**143,120,248**
Other Assets and Liabilities, Net	(25.1)	**(28,716,565)**
Net Assets	100.0	**114,403,683**

* 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, 2013.

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

† The cost for federal income tax purposes was $146,517,508. At June 30, 2013, net unrealized depreciation for all securities based on tax cost was $3,397,260. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $1,941,548 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $5,338,808.

(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 securities loaned at June 30, 2013 amounted to $5,013,650, which is 4.4% 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, 2013, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(f) At June 30, 2013, this security has been pledged, in whole or in part, as collateral for open swap contracts.

(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.

AGC: Assured Guaranty Corp.

AGMC: Assured Guaranty Municipal Corp.

AMBAC: Ambac Financial Group, Inc.

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.

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 Home Loan Mortgage Corp., Federal National Mortgage Association and issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

At June 30, 2013, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
10 Year Canadian Government Bond	CAD	9/19/2013	5	624,750	(25,222)
10 Year U.S. Treasury Note	USD	9/19/2013	200	25,312,500	(757,152)

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

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
Federal Republic of Germany Euro-Bund	EUR	9/6/2013	5	921,047	(18,167)
Total unrealized depreciation					**(800,541)**

At June 30, 2013, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
Ultra Long U.S. Treasury Bond	USD	9/19/2013	5	736,563	**(12,288)**

At June 30, 2013, open written options contracts were as follows:

Options on Exchange-Traded Futures Contracts	Contracts	Expiration Date	Strike Price ($)	Premiums Received ($)	Value ($) (i)
Put Options					
10 Year U.S. Treasury Note Future	24	8/23/2013	130.0	19,438	**(87,000)**

(i) Unrealized depreciation on written options on exchange-traded futures contracts at June 30, 2013 was $67,562.

Options on Interest Rate Swap Contracts	Swap Effective/ Expiration Date	Contract Amount	Option Expiration Date	Premiums Received ($)	Value ($) (j)
Call Options					
Received Fixed — 4.064% – Pay Floating — LIBOR	5/13/2014 5/13/2044	2,000,000[1]	5/9/2014	**14,750**	**(55,362)**
Put Options					
Pay Fixed — 2.385% – Receive Floating — LIBOR	3/31/2014 3/31/2044	2,000,000[2]	3/27/2014	27,300	(6,382)
Pay Fixed — 2.423% – Receive Floating — LIBOR	3/20/2014 3/20/2044	2,000,000[3]	3/18/2014	28,800	(7,250)
Pay Fixed — 2.064% – Receive Floating — LIBOR	5/13/2014 5/13/2044	2,000,000[1]	5/9/2014	14,750	(2,218)
Total Put Options				**70,850**	**(15,850)**
Total				**85,600**	**(71,212)**

(j) Unrealized appreciation on written options on interest rate swap contracts at June 30, 2013 was $14,388.

At June 30, 2013, open credit default swap contracts sold were as follows:

Effective/ Expiration Date	Notional Amount ($) (k)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (l)	Value ($)	Upfront Payments Paid ($)	Unrealized Appreciation ($)
9/20/2012 12/20/2017	50,000[4]	5.0%	General Motors Corp., 3.3%, 12/20/2017, BB+	6,217	3,324	**2,893**

(k) 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, if any.

(l) 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.

At June 30, 2013, 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) ($)	Unrealized Appreciation/ (Depreciation) ($)
5/1/2014 5/1/2016	25,000,000[5]	Fixed — 0.528%	Floating — LIBOR	198,959	—	198,959
5/1/2014 5/1/2034	3,000,000[3]	Floating — LIBOR	Fixed — 2.791%	(319,977)	7,242	(327,219)
5/1/2014 5/1/2019	15,000,000[6]	Fixed — 1.233%	Floating — LIBOR	610,937	(9,229)	620,166
5/1/2014 5/1/2024	12,000,000[2]	Fixed — 2.156%	Floating — LIBOR	934,208	(2,033)	936,241
5/1/2014 5/1/2044	1,500,000[2]	Floating — LIBOR	Fixed — 2.922%	(185,027)	2,487	(187,514)
Total net unrealized appreciation						**1,240,633**

Counterparties:

1 Nomura International PLC

2 Barclays Bank PLC

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

3 JPMorgan Chase Securities, Inc.
4 UBS AG
5 BNP Paribas
6 Citigroup, Inc.

LIBOR: London Interbank Offered Rate

At June 30, 2013, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
NOK	10,730,174	EUR	1,400,000	7/5/2013	56,184	Citigroup, Inc.
AUD	600,000	USD	625,106	7/5/2013	76,584	Nomura International PLC
USD	9,507	NOK	57,957	7/5/2013	32	Citigroup, Inc.
GBP	900,000	USD	1,373,765	7/5/2013	4,959	JPMorgan Chase Securities, Inc.
JPY	90,000,000	USD	926,117	7/10/2013	18,642	Nomura International PLC
EUR	700,000	USD	927,199	7/11/2013	16,003	JPMorgan Chase Securities, Inc.
GBP	600,000	USD	933,057	7/11/2013	20,558	BNP Paribas
SGD	1,800,000	USD	1,446,729	7/11/2013	26,578	JPMorgan Chase Securities, Inc.
EUR	700,000	USD	928,794	7/11/2013	17,598	Barclays Bank PLC
AUD	1,500,000	NZD	1,790,160	7/12/2013	15,476	Citigroup, Inc.
CZK	17,200,000	USD	883,048	7/12/2013	22,389	Bank of America
CZK	17,100,000	USD	885,293	7/12/2013	29,638	BNP Paribas
USD	887,544	ZAR	8,800,000	7/15/2013	683	Barclays Bank PLC
NZD	1,100,000	USD	876,664	7/15/2013	25,166	Citigroup, Inc.
JPY	60,000,000	USD	605,152	7/16/2013	154	Nomura International PLC
JPY	60,000,000	USD	613,907	7/16/2013	8,909	Bank of America
EUR	900,000	USD	1,199,080	7/17/2013	27,514	Nomura International PLC
GBP	800,000	USD	1,253,747	7/17/2013	37,133	JPMorgan Chase Securities, Inc.
JPY	90,000,000	USD	913,300	7/24/2013	5,776	Barclays Bank PLC
USD	583,686	ZAR	6,000,000	7/25/2013	21,015	Barclays Bank PLC
USD	819,656	AUD	900,000	7/26/2013	1,816	JPMorgan Chase Securities, Inc.
CAD	900,000	USD	855,608	7/26/2013	394	Nomura International PLC
AUD	900,000	USD	831,535	7/26/2013	10,062	BNP Paribas
CAD	1,100,000	USD	1,076,818	7/31/2013	31,658	JPMorgan Chase Securities, Inc.
AUD	1,243,690	USD	1,207,630	7/31/2013	72,801	JPMorgan Chase Securities, Inc.
CAD	759,475	USD	735,820	7/31/2013	14,208	Nomura International PLC
JPY	30,000,000	USD	307,148	8/1/2013	4,631	Nomura International PLC
USD	1,107,823	JPY	110,000,000	8/2/2013	1,409	JPMorgan Chase Securities, Inc.
Total unrealized appreciation					**567,970**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
USD	627,750	AUD	600,000	7/5/2013	(79,228)	Barclays Bank PLC
USD	909,592	JPY	90,000,000	7/5/2013	(2,133)	Nomura International PLC
USD	1,401,422	GBP	900,000	7/5/2013	(32,615)	BNP Paribas
JPY	90,000,000	USD	898,307	7/5/2013	(9,152)	Nomura International PLC
EUR	1,400,000	NOK	10,672,217	7/5/2013	(65,724)	UBS AG
USD	931,055	JPY	90,000,000	7/10/2013	(23,580)	Barclays Bank PLC
USD	933,264	GBP	600,000	7/11/2013	(20,765)	Barclays Bank PLC
USD	1,431,725	SGD	1,800,000	7/11/2013	(11,573)	Nomura International PLC
USD	1,863,428	EUR	1,400,000	7/11/2013	(41,037)	Barclays Bank PLC
NZD	1,084,052	AUD	900,000	7/12/2013	(16,994)	Nomura International PLC
NZD	717,352	AUD	600,000	7/12/2013	(7,188)	BNP Paribas
USD	1,789,151	CZK	34,300,000	7/12/2013	(72,838)	Barclays Bank PLC
USD	8,711	NZD	11,244	7/12/2013	(5)	Barclays Bank PLC
USD	586,735	INR	34,500,000	7/15/2013	(7,779)	Citigroup, Inc.
USD	884,879	NZD	1,100,000	7/15/2013	(33,381)	JPMorgan Chase Securities, Inc.

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

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
ZAR	8,800,000	USD	877,679	7/15/2013	(10,548)	UBS AG
INR	34,500,000	USD	566,689	7/15/2013	(12,268)	Citigroup, Inc.
USD	1,210,388	JPY	120,000,000	7/16/2013	(393)	Nomura International PLC
USD	1,258,000	GBP	800,000	7/17/2013	(41,385)	UBS AG
USD	1,190,076	EUR	900,000	7/17/2013	(18,510)	Nomura International PLC
USD	881,152	ZAR	8,700,000	7/19/2013	(3,545)	JPMorgan Chase Securities, Inc.
ZAR	8,700,000	USD	871,606	7/19/2013	(6,000)	JPMorgan Chase Securities, Inc.
NOK	5,557,509	EUR	700,000	7/24/2013	(2,899)	BNP Paribas
USD	921,003	JPY	90,000,000	7/24/2013	(13,479)	Nomura International PLC
ZAR	6,000,000	USD	592,826	7/25/2013	(11,875)	Citigroup, Inc.
TWD	25,900,000	USD	861,610	7/29/2013	(2,754)	JPMorgan Chase Securities, Inc.
JPY	108,517,971	USD	1,092,583	7/31/2013	(1,694)	Nomura International PLC
USD	302,877	JPY	30,000,000	8/1/2013	(360)	UBS AG
ZAR	8,800,000	USD	879,903	8/1/2013	(6,194)	Citigroup, Inc.
USD	888,234	ZAR	8,800,000	8/1/2013	(2,137)	Citigroup, Inc.
USD	2,057,685	MXN	26,600,000	8/19/2013	(14,121)	JPMorgan Chase Securities, Inc.
Total unrealized depreciation					**(572,154)**	

Currency Abbreviations

AUD	Australian Dollar	INR	Indian Rupee	RUB	Russian Ruble
CAD	Canadian Dollar	JPY	Japanese Yen	SGD	Singapore Dollar
CZK	Czech Koruna	MXN	Mexican Peso	TWD	Taiwan Dollar
EUR	Euro	NOK	Norwegian Krone	USD	United States Dollar
GBP	Great British Pound	NZD	New Zealand Dollar	ZAR	South African Rand

For information on the Fund's policy and additional disclosures regarding options purchased, futures contracts, written options, credit default swap contracts, interest rate swap contracts and forward foreign currency exchange 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, 2013 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	$ —	$ 43,161,775	$ —	$ 43,161,775
Mortgage-Backed Securities Pass-Throughs	—	41,349,910	—	41,349,910
Asset-Backed	—	1,797,185	—	1,797,185
Commercial Mortgage-Backed Securities	—	8,347,213	—	8,347,213
Collateralized Mortgage Obligations	—	6,074,847	—	6,074,847
Government & Agency Obligations	—	25,648,323	—	25,648,323
Loan Participations and Assignments	—	1,962,588	—	1,962,588
Municipal Bonds and Notes	—	5,798,996	—	5,798,996
Preferred Stock	—	14,258	—	14,258
Short-Term Investments (m)	8,964,028	—	—	8,964,028
Derivatives (n)				
Purchased Options	1,125	—	—	1,125
Credit Default Swap Contracts	—	2,893	—	2,893
Interest Rate Swap Contracts	—	1,755,366	—	1,755,366
Forward Foreign Currency Exchange Contracts	—	567,970	—	567,970
Total	**$ 8,965,153**	**$136,481,324**	**$ —**	**$145,446,477**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (n)				
Written Options	$ (87,000)	$ (71,212)	$ —	$ (158,212)
Futures Contracts	(812,829)	—	—	(812,829)
Interest Rate Swap Contracts	—	(514,733)	—	(514,733)
Forward Foreign Currency Exchange Contracts	—	(572,154)	—	(572,154)
Total	**$ (899,829)**	**$ (1,158,099)**	**$ —**	**$ (2,057,928)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2013.

(m) See Investment Portfolio for additional detailed categorizations.

(n) Derivatives include value of options purchased, unrealized appreciation (depreciation) on futures contracts, credit default swap contracts, interest rate swap contracts, forward foreign currency exchange 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, 2013 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $137,553,480) — including $5,013,650 of securities loaned	$ 134,156,220
Investment in Daily Assets Fund Institutional (cost $5,169,839)*	5,169,839
Investment in Central Cash Management Fund (cost $3,794,189)	3,794,189
Total investments, at value (cost $146,517,508)	143,120,248
Cash	26,847
Foreign currency, at value (cost $306,763)	287,604
Deposit from broker for swap contracts	360,000
Receivable for investments sold	469,785
Receivable for investments sold — when-issued securities	9,748,385
Receivable for Fund shares sold	18,962
Interest receivable	1,073,757
Unrealized appreciation on swap contracts	1,758,259
Unrealized appreciation on forward foreign currency exchange contracts	567,970
Upfront payments paid on swap contracts	13,053
Foreign taxes recoverable	1,037
Other assets	3,227
Total assets	157,449,134
Liabilities	
Payable upon return of securities loaned	5,169,839
Payable for investments purchased	791,457
Payable for investments purchased — when-issued securities	35,044,148
Payable for Fund shares redeemed	199,317
Payable for variation margin on swap contracts	10,905
Payable upon return of deposit for swap contracts	360,000
Options written, at value (premiums received $105,038)	158,212
Net payable for pending swap contracts	117,418
Unrealized depreciation on swap contracts	514,733
Unrealized depreciation on forward foreign currency exchange contracts	572,154
Upfront payments received on swap contracts	11,262
Accrued management fee	27,785
Accrued Trustees' fees	2,628
Other accrued expenses and payables	65,593
Total liabilities	43,045,451
Net assets, at value	**$ 114,403,683**
Net Assets Consist of	
Undistributed net investment income	1,748,525
Net unrealized appreciation (depreciation) on:	
Investments	(3,397,260)
Swap contracts	1,243,526
Futures	(812,829)
Foreign currency	(25,189)
Written options	(53,174)
Accumulated net realized gain (loss)	(78,985,968)
Paid-in capital	194,686,052
Net assets, at value	**$ 114,403,683**
Class A	
Net Asset Value, offering and redemption price per share ($114,403,683 ÷ 20,965,100 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 5.46**

* Represents collateral on securities loaned.

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

Statement of Operations

for the six months ended June 30, 2013 (Unaudited)

Investment Income	
Income:	
Interest (net of foreign taxes withheld of $461)	$ 2,440,439
Income distributions — Central Cash Management Fund	4,569
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	8,097
Total income	2,453,105
Expenses:	
Management fee	292,354
Administration fee	74,963
Services to shareholders	1,364
Custodian fee	19,001
Professional fees	31,007
Reports to shareholders	22,799
Trustees' fees and expenses	5,767
Other	7,925
Total expenses before expense reductions	455,180
Expense reductions	(41,295)
Total expenses after expense reductions	413,885
Net investment income	**2,039,220**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	1,394,124
Swap contracts	147,781
Futures	(591,550)
Written options	84,004
Foreign currency	(407,612)
	626,747
Change in net unrealized appreciation (depreciation) on:	
Investments	(7,689,538)
Swap contracts	1,031,726
Futures	(820,154)
Written options	(129,178)
Foreign currency	1,391
	(7,605,753)
Net gain (loss)	**(6,979,006)**
Net increase (decrease) in net assets resulting from operations	**$ (4,939,786)**

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, 2013 (Unaudited)	Year Ended December 31, 2012
Operations:		
Net investment income	$ 2,039,220	$ 4,611,965
Net realized gain (loss)	626,747	7,673,239
Change in net unrealized appreciation (depreciation)	(7,605,753)	(104,078)
Net increase (decrease) in net assets resulting from operations	(4,939,786)	12,181,126
Distributions to shareholders from:		
Net investment income:		
Class A	(4,386,055)	(4,882,203)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,823,300	33,310,645
Net assets acquired in tax-free reorganization*	—	78,348,206
Reinvestment of distributions	4,386,055	4,882,203
Payments for shares redeemed	(73,726,792)	(45,528,835)
Net increase (decrease) in net assets from Class A share transactions	(66,517,437)	71,012,219
Increase (decrease) in net assets	(75,843,278)	78,311,142
Net assets at beginning of period	190,246,961	111,935,819
Net assets at end of period (including undistributed net investment income of $1,748,525 and $4,095,360, respectively)	**$ 114,403,683**	**$ 190,246,961**

Other Information		
Class A		
Shares outstanding at beginning of period	32,324,964	19,571,536
Shares sold	487,650	5,773,870
Shares issued in tax-free reorganization*	—	13,990,523
Shares issued to shareholders in reinvestment of distributions	768,136	873,382
Shares redeemed	(12,615,650)	(7,884,347)
Net increase (decrease) in Class A shares	(11,359,864)	12,753,428
Shares outstanding at end of period	**20,965,100**	**32,324,964**

* 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 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$ 5.89**	**$ 5.72**	**$ 5.66**	**$ 5.54**	**$ 5.50**	**$ 6.98**
Income (loss) from investment operations:						
Net investment income[a]	.08	.16	.22	.19	.25	.37
Net realized and unrealized gain (loss)	(.30)	.27	.09	.18	.26	(1.48)
Total from investment operations	(.22)	.43	.31	.37	.51	(1.11)
Less distributions from:						
Net investment income	(.21)	(.26)	(.25)	(.25)	(.47)	(.37)
Net asset value, end of period	**$ 5.46**	**$ 5.89**	**$ 5.72**	**$ 5.66**	**$ 5.54**	**$ 5.50**
Total Return (%)	(3.91)[b]**	7.77	5.68	6.79	10.07	(16.77)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	114	190	112	155	159	155
Ratio of expenses before expense reductions (%)	.61*	.58	.62	.59	.59	.59
Ratio of expenses after expense reductions (%)	.55*	.58	.62	.59	.59	.59
Ratio of net investment income (%)	2.72*	2.81	3.86	3.42	4.68	5.76
Portfolio turnover rate (%)	181**	115	219	357	284	196

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 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, 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.

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 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. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of June 30, 2013, the Fund had securities on loan with a gross value of $5,013,650. The value of the related collateral, $5,169,839, exceeded the value of the securities loaned at period end.

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.

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, the Fund may be subject to taxes imposed by the governments of countries in which it invests and are generally based on income and/or capital gains earned or repatriated. 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. Tax liabilities realized as a result of security sales are reflected as a component of net realized gain/loss on investments.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses incurred post-enactment 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, 2012, the Fund had a net tax basis capital loss carryforward of approximately $79,389,000, including $45,070,000 inherited from its merger with DWS Core Fixed Income VIP in fiscal year 2012, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($45,070,000) and December 31, 2017 ($34,319,000), the respective expiration dates, whichever occurs first, and which may be subject to certain limitations under Sections 381–384 of the Internal Revenue Code.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2012 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 from net investment income of the Fund, if any, are 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 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 based upon the relative net assets or other appropriate measures.

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, 2013, 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 interest rate 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, 2013, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $8,763,000 to $26,858,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from $0 to approximately $6,995,000.

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 exercised. For the six months ended June 30, 2013, 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. 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, 2013 is included in the Fund's Investment Portfolio. A summary of open written option contracts is included in the table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, the investment in written options contracts had a total value generally indicative of a range from approximately $26,000 to $158,000, and purchased option contracts had a total value generally indicative of a range from approximately $1,000 to $15,000.

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. The Fund may enter into credit default swap contracts to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer or to hedge against the risk of a credit event on debt 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 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. For the six months ended June 30, 2013, the Fund entered into credit default swap contracts to gain exposure to the underlying issuer's credit quality characteristics and hedge the risk of default on Fund securities.

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, 2013 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, the investment in credit default swap contracts sold had a total notional value generally indicative of a range from $50,000 to $2,750,000.

Interest Rate Swap Contracts. For the six months ended June 30, 2013, the Fund entered into interest rate swap transactions to gain exposure to different parts of the yield curve while managing overall duration. 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, 2013 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $27,500,000 to $56,500,000.

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, 2013, 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, 2013, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, the investment in forward currency contracts U.S. dollars purchased had a total contract value generally indicative of a range from approximately $8,954,000 to $26,047,000, and the investment in forward currency contracts U.S. dollars sold had a total contract value generally indicative of a range from approximately $5,889,000 to $23,485,000.

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 $7,457,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2013 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	Total
Interest Rate Contracts (a)	$ 1,125	$ —	$ 1,755,366	$ 1,756,491
Credit Contracts (a)	—	—	2,893	2,893
Foreign Exchange Contracts (b)	—	567,970	—	567,970
	$ 1,125	**$ 567,970**	**$ 1,758,259**	**$ 2,327,354**

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) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivatives	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a) (b)	$ (158,212)	$ —	$ (514,733)	$ (812,829)	$ (1,485,774)
Foreign Exchange Contracts (c)	—	(572,154)	—	—	(572,154)
	$ (158,212)	**$ (572,154)**	**$ (514,733)**	**$ (812,829)**	**$ (2,057,928)**

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, 2013 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)	$ (932)	$ 84,004	$ —	$ 142,459	$ (591,550)	$ (366,019)
Credit Contracts (b)	—	—	—	5,322	—	5,322
Foreign Exchange Contracts (c)	—	—	(368,630)	—	—	(368,630)
	$ (932)	**$ 84,004**	**$ (368,630)**	**$ 147,781**	**$ (591,550)**	**$ (729,327)**

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 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)	Purchased Options	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a)	$ (10,435)	$ (129,178)	$ —	$ 1,123,214	$ (820,154)	$ 163,447
Credit Contracts (b)	—	—	—	(91,488)	—	(91,488)
Foreign Exchange Contracts (c)	—	—	14,725	—	—	14,725
	$ (10,435)	**$ (129,178)**	**$ 14,725**	**$ 1,031,726**	**$ (820,154)**	**$ 86,684**

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, swaps contracts and futures, respectively.

(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)

As of June 30, 2013, the Fund has transactions subject to enforceable master netting agreements. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by derivative type, including any collateral exposure, is included in the following tables:

Counterparty	Gross Amounts of Assets Presented in the Statement of Assets and Liabilities (a)	Financial Instruments and Derivatives Available for Offset	Non-Cash Collateral Received	Collateral Received (c)	Net Amount of Derivative Assets
Bank of America	$ 31,298	$ —	$ —	$ —	$ 31,298
Barclays Bank PLC	981,313	(431,349)	—	—	549,964
BNP Paribas	259,217	(42,702)	—	—	216,515
Citigroup, Inc.	717,024	(40,253)	—	(360,000)	316,771
JPMorgan Chase Securities, Inc.	192,357	(192,357)	—	—	—
Nomura International PLC	142,127	(131,508)	—	—	10,619
UBS AG	2,893	(2,893)	—	—	—
Exchange Traded Options and Futures (b)	1,125	—	—	—	1,125
	$ 2,327,354	**$ (841,062)**	**$ —**	**$ (360,000)**	**$ 1,126,292**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities (a)	Financial Instruments and Derivatives Available for Offset	Non-Cash Collateral Pledged (c)	Collateral Pledged	Net Amount of Derivative Liabilities
Barclays Bank PLC	$ 431,349	$ (431,349)	$ —	$ —	$ —
BNP Paribas	42,702	(42,702)	—	—	—
Citigroup, Inc.	40,253	(40,253)	—	—	—
JPMorgan Chase Securities, Inc.	394,270	(192,357)	(201,913)	—	—
Nomura International PLC	131,508	(131,508)	—	—	—
UBS AG	118,017	(2,893)	—	—	115,124
Exchange Traded Options and Futures (b)	899,829	—	—	—	899,829
	$ 2,057,928	**$ (841,062)**	**$ (201,913)**	**$ —**	**$ 1,014,953**

(a) Forward foreign currency exchange contracts, swap contracts and over-the-counter purchased options and written options are netted.

(b) Includes financial instruments (purchased options or futures) which are not subject to a master netting arrangement, or another similar arrangement.

(c) The actual collateral received and/or pledged may be more than the amount shown.

C. Purchases and Sales of Securities

During the six months ended June 30, 2013, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury obligations) aggregated $305,750,538 and $352,606,609, respectively. Purchases and sales of U.S. Treasury obligations aggregated $2,516,317 and $18,412,911, respectively.

For the six months ended June 30, 2013, transactions for written options on interest rate swap contracts and futures contracts were as follows:

	Contracts/ Contract Amount	Premiums
Outstanding, beginning of period	5,700,015	$ 102,441
Options written	8,000,024	105,038
Options closed	(5,700,000)	(96,615)
Options expired	(15)	(5,826)
Outstanding, end of period	**8,000,024**	**$ 105,038**

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, 2013, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $40,987, and the amount charged aggregated $251,367, which was equivalent to an annualized effective rate of 0.34% of the Fund's average daily net assets.

For the period from January 1, 2013 through September 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 0.55%.

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, 2013, the Administration Fee was $74,963, of which $9,608 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, 2013, the amounts charged to the Fund by DISC aggregated $308, 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, 2013, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $7,459, of which $6,983 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 Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and DWS Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and DWS Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that DWS Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in DWS Variable NAV Money Fund.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the six months ended June 30, 2013, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $900.

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 35%, 25% and 13%, 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, 2013.

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.

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. 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, 2013 to June 30, 2013).

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, 2013

Actual Fund Return	**Class A**
Beginning Account Value 1/1/13	$1,000.00
Ending Account Value 6/30/13	$ 960.90
Expenses Paid per $1,000*	$ 2.67

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/13	$1,000.00
Ending Account Value 6/30/13	$1,022.07
Expenses Paid per $1,000*	$ 2.76

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratio	**Class A**
DWS Variable Series I — DWS Bond VIP	.55%

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.

For an analysis of the fees associated with an investment in the Fund or similar funds, please refer to http://apps.finra.org/fundanalyzer/1/fa.aspx.

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 17, 2012

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 2012, 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, 2010 and 2011.

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 103 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 "fallout" 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 considered how aggregated DWS Fund performance measures relative to appropriate peers had varied by asset class and over time.

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 Distributors, Inc.
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Chicago, IL 60606
(800) 621-1148

VS1bond-3 (R-028373-2 8/13)

JUNE 30, 2013

SEMIANNUAL REPORT

DWS VARIABLE SERIES I

DWS Capital 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.

The Fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

DWS Investments is part of the Deutsche Asset & Wealth Management division of Deutsche Bank AG.

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

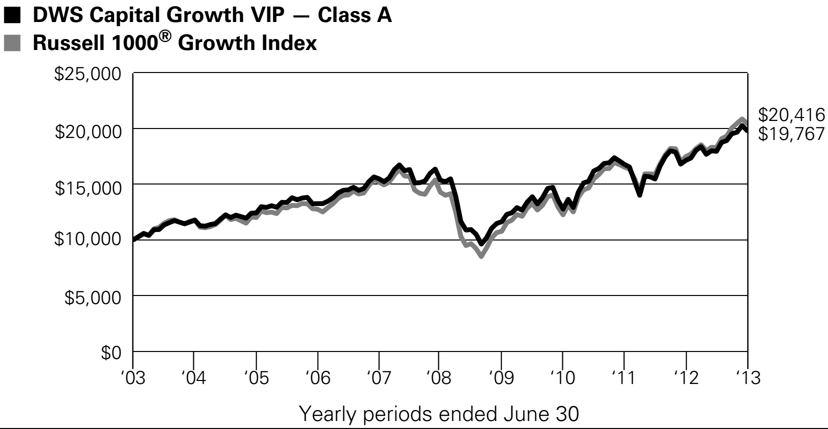
Performance Summary

June 30, 2013 (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, 2013 are 0.50% and 0.83% 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	$11,033	$11,558	$15,509	$12,902	$19,767
	Average annual total return	10.33%	15.58%	15.75%	5.23%	7.05%
Russell 1000 Growth Index	Growth of $10,000	$11,180	$11,707	$16,715	$14,338	$20,416
	Average annual total return	11.80%	17.07%	18.68%	7.47%	7.40%

DWS Capital Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$11,019	$11,523	$15,362	$12,696	$19,098
	Average annual total return	10.19%	15.23%	15.38%	4.89%	6.68%
Russell 1000 Growth Index	Growth of $10,000	$11,180	$11,707	$16,715	$14,338	$20,416
	Average annual total return	11.80%	17.07%	18.68%	7.47%	7.40%

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)	**6/30/13**	**12/31/12**
Common Stocks	99%	97%
Cash Equivalents	1%	3%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/13**	**12/31/12**
Information Technology	26%	32%
Consumer Discretionary	19%	16%
Health Care	15%	13%
Industrials	13%	13%
Consumer Staples	12%	13%
Financials	5%	5%
Energy	5%	5%
Materials	4%	3%
Telecommunication Services	1%	—
Utilities	0%	0%
	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

Owen Fitzpatrick, CFA
Lead Portfolio Manager

Thomas M. Hynes, Jr., CFA
Brendan O'Neill, CFA
Portfolio Managers

	Shares	Value ($)
Common Stocks 99.1%		
Consumer Discretionary 19.5%		
Auto Components 0.8%		
BorgWarner, Inc.* (a)	67,529	**5,817,623**
Hotels, Restaurants & Leisure 3.3%		
Brinker International, Inc. (a)	145,313	5,729,692
Las Vegas Sands Corp.	147,340	7,798,706
Norwegian Cruise Line Holdings Ltd.* (a)	63,092	1,912,319
Starwood Hotels & Resorts Worldwide, Inc. (a)	140,028	8,848,369
		24,289,086
Household Durables 0.0%		
Taylor Morrison Home Corp. "A"* (a)	4,650	**113,367**
Internet & Catalog Retail 1.5%		
Amazon.com, Inc.*	40,690	**11,299,206**
Media 3.4%		
Comcast Corp. "A"	348,980	14,615,282
News Corp. "A"	327,415	10,673,729
		25,289,011
Multiline Retail 1.1%		
Dollar General Corp.*	163,296	**8,235,017**
Specialty Retail 5.3%		
Dick's Sporting Goods, Inc. (a)	193,194	9,671,292
GNC Holdings, Inc. "A" (a)	98,889	4,371,883
Home Depot, Inc.	186,589	14,455,050
L Brands, Inc. (a)	213,613	10,520,440
		39,018,665
Textiles, Apparel & Luxury Goods 4.1%		
NIKE, Inc. "B"	349,769	22,273,290
VF Corp. (a)	42,135	8,134,583
		30,407,873
Consumer Staples 12.2%		
Beverages 3.7%		
Beam, Inc.	152,794	9,642,829
PepsiCo, Inc.	214,302	17,527,761
		27,170,590
Food & Staples Retailing 4.4%		
Costco Wholesale Corp.	133,314	14,740,529
Whole Foods Market, Inc. (a)	342,500	17,631,900
		32,372,429
Food Products 4.1%		
Hillshire Brands Co.	282,957	9,360,217
Kraft Foods Group, Inc.	117,403	6,559,306
Mead Johnson Nutrition Co.	86,951	6,889,128
Mondelez International, Inc. "A"	276,682	7,893,737
		30,702,388
Energy 4.8%		
Energy Equipment & Services 2.5%		
Cameron International Corp.*	97,224	5,946,220
Schlumberger Ltd.	175,383	12,567,946
		18,514,166

	Shares	Value ($)
Oil, Gas & Consumable Fuels 2.3%		
Anadarko Petroleum Corp.	103,655	8,907,074
Concho Resources, Inc.*	46,999	3,934,756
Pioneer Natural Resources Co.	27,661	4,003,930
		16,845,760
Financials 5.3%		
Capital Markets 3.0%		
Affiliated Managers Group, Inc.* (a)	82,215	13,478,327
Ameriprise Financial, Inc.	67,147	5,430,850
Charles Schwab Corp.	137,127	2,911,206
		21,820,383
Consumer Finance 1.3%		
Discover Financial Services	208,339	**9,925,270**
Real Estate Investment Trusts 0.9%		
American Tower Corp. (REIT)	89,066	**6,516,959**
Real Estate Management & Development 0.1%		
Realogy Holdings Corp.*	16,893	**811,540**
Health Care 14.4%		
Biotechnology 7.7%		
Celgene Corp.*	183,949	21,505,478
Cepheid, Inc.* (a)	155,369	5,347,801
Gilead Sciences, Inc.* (a)	432,697	22,158,413
Medivation, Inc.* (a)	162,921	8,015,713
		57,027,405
Health Care Equipment & Supplies 1.6%		
CareFusion Corp.*	211,364	7,788,764
St. Jude Medical, Inc.	96,067	4,383,537
		12,172,301
Health Care Providers & Services 3.8%		
Express Scripts Holding Co.*	276,663	17,067,340
McKesson Corp.	97,284	11,139,018
		28,206,358
Life Sciences Tools & Services 1.3%		
Thermo Fisher Scientific, Inc. (a)	113,595	**9,613,545**
Industrials 12.5%		
Aerospace & Defense 2.1%		
Boeing Co.	74,437	7,625,326
TransDigm Group, Inc.	51,056	8,004,049
		15,629,375
Commercial Services & Supplies 0.9%		
Stericycle, Inc.* (a)	57,396	**6,338,240**
Electrical Equipment 3.4%		
AMETEK, Inc. (a)	276,403	11,691,847
Regal-Beloit Corp.	51,146	3,316,307
Roper Industries, Inc. (a)	82,510	10,249,392
		25,257,546
Industrial Conglomerates 1.2%		
General Electric Co.	378,408	**8,775,282**
Machinery 3.7%		
Dover Corp. (a)	115,280	8,952,645
Parker Hannifin Corp. (a)	139,888	13,345,315
SPX Corp. (a)	73,208	5,269,512
		27,567,472

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

	Shares	Value ($)
Road & Rail 1.2%		
Norfolk Southern Corp.	127,134	**9,236,285**
Information Technology 25.6%		
Communications Equipment 2.4%		
QUALCOMM, Inc.	290,287	**17,730,730**
Computers & Peripherals 5.8%		
Apple, Inc.	74,673	29,576,482
EMC Corp. (a)	535,358	12,645,156
Stratasys Ltd.*	7,070	592,042
		42,813,680
Internet Software & Services 4.8%		
eBay, Inc.*	132,187	6,836,711
Google, Inc. "A"*	33,264	29,284,628
		36,121,339
IT Services 5.6%		
Accenture PLC "A" (a)	161,668	11,633,629
International Business Machines Corp.	61,141	11,684,657
Visa, Inc. "A" (a)	101,366	18,524,636
		41,842,922
Semiconductors & Semiconductor Equipment 0.5%		
Broadcom Corp. "A" (a)	104,049	**3,512,694**
Software 6.5%		
Check Point Software Technologies Ltd.* (a)	106,080	5,270,054
Citrix Systems, Inc.*	110,348	6,657,295
Microsoft Corp.	301,483	10,410,208
Oracle Corp.	730,565	22,442,957
Solera Holdings, Inc.	60,132	3,346,346
		48,126,860

	Shares	Value ($)
Materials 4.0%		
Chemicals		
Ecolab, Inc. (a)	133,604	11,381,725
LyondellBasell Industries NV "A"	89,527	5,932,059
Monsanto Co.	127,755	12,622,194
		29,935,978
Telecommunication Services 0.5%		
Wireless Telecommunication Services		
Crown Castle International Corp.*	54,177	**3,921,873**
Utilities 0.3%		
Water Utilities		
American Water Works Co., Inc.	60,792	**2,506,454**
Total Common Stocks (Cost $470,849,603)		**735,485,672**
Securities Lending Collateral 16.6%		
Daily Assets Fund Institutional, 0.10% (b) (c) (Cost $123,356,477)	123,356,477	**123,356,477**
Cash Equivalents 0.9%		
Central Cash Management Fund, 0.07% (b) (Cost $6,524,732)	6,524,732	**6,524,732**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $600,730,812)†	116.6	**865,366,881**
Other Assets and Liabilities, Net (a)	(16.6)	**(123,405,791)**
Net Assets	100.0	**741,961,090**

* Non-income producing security.

† The cost for federal income tax purposes was $603,069,362. At June 30, 2013, net unrealized appreciation for all securities based on tax cost was $262,297,519. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $268,631,694 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $6,334,175.

(a) All or a portion of these securities were on loan. In addition, included in other assets and liabilities, net are pending sales, that are also on loan (see Notes to Financial Statements). The value of securities loaned at June 30, 2013 amounted to $119,269,494, which is 16.1% 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.

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, 2013 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)	$735,485,672	$ —	$ —	$735,485,672
Short-Term Investments (d)	129,881,209	—	—	129,881,209
Total	**$865,366,881**	**$ —**	**$ —**	**$865,366,881**

There have been no transfers between fair value measurement levels during the period ended June 30, 2013.

(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, 2013 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $470,849,603) — including $119,269,494 of securities loaned	$	735,485,672
Investment in Daily Assets Fund Institutional (cost $123,356,477)*		123,356,477
Investment in Central Cash Management Fund (cost $6,524,732)		6,524,732
Total investments in securities, at value (cost $600,730,812)		865,366,881
Foreign currency, at value (cost $3,675)		3,487
Receivable for investments sold		42,021,529
Receivable for Fund shares sold		70,289
Dividends receivable		647,960
Interest receivable		3,655
Foreign taxes recoverable		28,627
Other assets		4,664
Total assets		908,147,092
Liabilities		
Payable upon return of securities loaned		123,356,477
Payable for investments purchased		42,173,008
Payable for Fund shares redeemed		290,831
Accrued management fee		231,333
Accrued Trustees' fees		706
Other accrued expenses and payables		133,647
Total liabilities		166,186,002
Net assets, at value	**$**	**741,961,090**
Net Assets Consist of		
Undistributed net investment income		2,444,538
Net unrealized appreciation (depreciation) on:		
Investments		264,636,069
Foreign currency		3,489
Accumulated net realized gain (loss)		(38,850,036)
Paid-in capital		513,727,030
Net assets, at value	**$**	**741,961,090**
Class A		
Net Asset Value, offering and redemption price per share ($728,827,763 ÷ 31,304,064 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**23.28**
Class B		
Net Asset Value, offering and redemption price per share ($13,133,327 ÷ 565,478 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**23.23**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2013 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $12,380)	$	4,451,551
Income distributions — Central Cash Management Fund		4,269
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		20,672
Total income		4,476,492
Expenses:		
Management fee		1,387,835
Administration fee		371,737
Services to shareholders		2,592
Distribution and service fees (Class B)		16,703
Record keeping fee (Class B)		5,333
Custodian fee		8,032
Professional fees		33,976
Reports to shareholders		1,832
Trustees' fees and expenses		14,804
Total expenses		1,842,844
Net investment income (loss)		**2,633,648**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		50,176,232
Foreign currency		(1,009)
		50,175,223
Change in net unrealized appreciation (depreciation) on:		
Investments		20,309,437
Foreign currency		(1,048)
		20,308,389
Net gain (loss)		**70,483,612**
Net increase (decrease) in net assets resulting from operations	**$**	**73,117,260**

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, 2013 (Unaudited)	Year Ended December 31, 2012
Operations:		
Net investment income (loss)	$ 2,633,648	$ 9,693,194
Net realized gain (loss)	50,175,223	39,822,591
Change in net unrealized appreciation (depreciation)	20,308,389	58,817,893
Net increase (decrease) in net assets resulting from operations	73,117,260	108,333,678
Distributions to shareholders from:		
Net investment income:		
Class A	(9,616,234)	(6,353,433)
Class B	(131,767)	(73,349)
Total distributions	(9,748,001)	(6,426,782)
Fund share transactions:		
Class A		
Proceeds from shares sold	4,965,062	16,829,443
Reinvestment of distributions	9,616,234	6,353,433
Payments for shares redeemed	(49,069,341)	(99,466,658)
Net increase (decrease) in net assets from Class A share transactions	(34,488,045)	(76,283,782)
Class B		
Proceeds from shares sold	303,236	580,173
Reinvestment of distributions	131,767	73,349
Payments for shares redeemed	(1,252,837)	(2,697,364)
Net increase (decrease) in net assets from Class B share transactions	(817,834)	(2,043,842)
Increase (decrease) in net assets	28,063,380	23,579,272
Net assets at beginning of period	713,897,710	690,318,438
Net assets at end of period (including undistributed net investment income of $2,444,538 and $9,558,891, respectively)	**$ 741,961,090**	**$ 713,897,710**

Other Information		
Class A		
Shares outstanding at beginning of period	32,798,165	36,451,466
Shares sold	216,183	801,185
Shares issued to shareholders in reinvestment of distributions	419,923	298,283
Shares redeemed	(2,130,207)	(4,752,769)
Net increase (decrease) in Class A shares	(1,494,101)	(3,653,301)
Shares outstanding at end of period	**31,304,064**	**32,798,165**
Class B		
Shares outstanding at beginning of period	600,771	698,290
Shares sold	13,273	28,055
Shares issued to shareholders in reinvestment of distributions	5,764	3,450
Shares redeemed	(54,330)	(129,024)
Net increase (decrease) in Class B shares	(35,293)	(97,519)
Shares outstanding at end of period	**565,478**	**600,771**

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

Financial Highlights

Class A	Six Months Ended 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$21.38**	**$18.58**	**$19.59**	**$16.93**	**$13.55**	**$20.41**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.08	.28	.17	.14[c]	.14	.16
Net realized and unrealized gain (loss)	2.12	2.70	(1.03)	2.68	3.43	(6.83)
Total from investment operations	2.20	2.98	(.86)	2.82	3.57	(6.67)
Less distributions from:						
Net investment income	(.30)	(.18)	(.15)	(.16)	(.19)	(.19)
Net asset value, end of period	**$23.28**	**$21.38**	**$18.58**	**$19.59**	**$16.93**	**$13.55**
Total Return (%)	10.33**	16.05	(4.47)	16.71[b]	26.87[b]	(32.98)[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	729	701	677	729	715	594
Ratio of expenses before expense reductions (%)	.50*	.50	.50	.51	.51	.50
Ratio of expenses after expense reductions (%)	.50*	.50	.50	.51	.49	.49
Ratio of net investment income (loss) (%)	.70*	1.32	.86	.78[c]	.98	.89
Portfolio turnover rate (%)	20**	25	47	42	76	21

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 per share and 0.28% of average daily net assets for the year ended December 31, 2010.

* Annualized

** Not annualized

Class B	Six Months Ended 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$21.29**	**$18.51**	**$19.51**	**$16.86**	**$13.49**	**$20.31**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.04	.20	.10	.08[c]	.09	.10
Net realized and unrealized gain (loss)	2.13	2.69	(1.02)	2.67	3.43	(6.81)
Total from investment operations	2.17	2.89	(.92)	2.75	3.52	(6.71)
Less distributions from:						
Net investment income	(.23)	(.11)	(.08)	(.10)	(.15)	(.11)
Net asset value, end of period	**$23.23**	**$21.29**	**$18.51**	**$19.51**	**$16.86**	**$13.49**
Total Return (%)	10.19**	15.61	(4.76)	16.33[b]	26.49[b]	(33.20)[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	13	13	13	12	12	10
Ratio of expenses before expense reductions (%)	.83*	.83	.84	.85	.85	.85
Ratio of expenses after expense reductions (%)	.83*	.83	.84	.84	.82	.82
Ratio of net investment income (loss) (%)	.37*	.97	.52	.45[c]	.65	.56
Portfolio turnover rate (%)	20**	25	47	42	76	21

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 per share and 0.28% of average daily net assets for the year ended December 31, 2010.

* 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, 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 record keeping fees equal to an annual rate of 0.25% and up to 0.15%, respectively, of the average daily net assets of the Class B shares of the 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. Brown Brothers Harriman & Co., as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of June 30, 2013, the Fund had securities on loan with a gross value of $119,269,494. The value of the related collateral, $123,356,477, exceeded the value of the securities loaned at period end.

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 incurred post-enactment 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, 2012, the Fund had a net tax basis capital loss carryforward of approximately $86,678,000 of pre-enactment losses, including $48,520,000 inherited from its merger with other affiliated funds in previous years, which may be applied against any realized net taxable capital gains of each year until fully utilized or until December 31, 2015 ($6,855,000), December 31, 2016 ($41,665,000) and December 31, 2017 ($38,158,000), 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, 2012 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 from net investment income of the Fund, if any, are 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 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 based upon the relative net assets or other appropriate measures.

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, 2013, purchases and sales of investment securities (excluding short-term investments) aggregated $145,367,218 and $171,541,260, 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, 2013, 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.

For the period from January 1, 2013 through September 30, 2013, 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	.75%
Class B	1.08%

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, 2013, the Administration Fee was $371,737, of which $61,972 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, 2013, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at June 30, 2013**
Class A	$ 362	$ 124
Class B	75	21
	$ 437	**$ 145**

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, 2013, the Distribution Service Fee aggregated $16,703, of which $2,762 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, 2013, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $7,463, of which $7,368 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 Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and DWS Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and DWS Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that DWS Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in DWS Variable NAV Money Fund.

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 38%, 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, 2013.

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, 2013 to June 30, 2013).

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, 2013

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/13	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,103.30	$1,101.90
Expenses Paid per $1,000*	$ 2.61	$ 4.33

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/13	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,022.32	$1,020.68
Expenses Paid per $1,000*	$ 2.51	$ 4.16

* 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 181 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series I — DWS Capital Growth VIP	.50%	.83%

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.

For an analysis of the fees associated with an investment in the Fund or similar funds, please refer to http://apps.finra.org/fundanalyzer/1/fa.aspx.

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 17, 2012

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 2012, 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, 2010 and 2011.

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 103 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 "fallout" 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 considered how aggregated DWS Fund performance measures relative to appropriate peers had varied by asset class and over time.

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
(800) 621-1148

VS1capgro-3 (R-028374-2 8/13)

JUNE 30, 2013

SEMIANNUAL REPORT

DWS VARIABLE SERIES I

DWS Core 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. 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 the Deutsche Asset & Wealth Management division of Deutsche Bank AG.

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

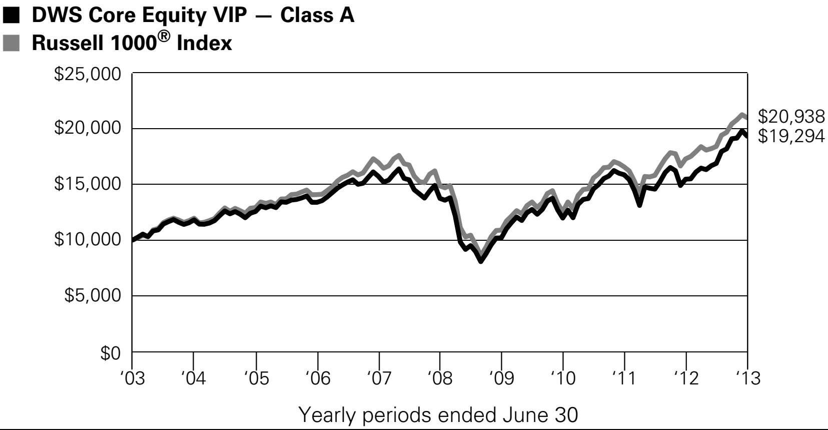
Performance Summary

June 30, 2013 (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, 2013 are 0.59% and 0.90% 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	$11,448	$12,487	$16,117	$14,057	$19,294
	Average annual total return	14.48%	24.87%	17.25%	7.05%	6.79%
Russell 1000® Index	Growth of $10,000	$11,391	$12,124	$16,695	$14,104	$20,938
	Average annual total return	13.91%	21.24%	18.63%	7.12%	7.67%

DWS Core Equity VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$11,439	$12,464	$15,986	$13,912	$18,759
	Average annual total return	14.39%	24.64%	16.93%	6.83%	6.49%
Russell 1000® Index	Growth of $10,000	$11,391	$12,124	$16,695	$14,104	$20,938
	Average annual total return	13.91%	21.24%	18.63%	7.12%	7.67%

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)	**6/30/13**	**12/31/12**
Common Stocks	99%	99%
Cash Equivalents	1%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/13**	**12/31/12**
Financials	19%	16%
Information Technology	17%	18%
Health Care	16%	12%
Consumer Discretionary	11%	13%
Energy	11%	12%
Consumer Staples	10%	12%
Industrials	9%	8%
Materials	4%	6%
Utilities	2%	1%
Telecommunication Services	1%	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

Effective July 12, 2013, QS Investors no longer serves as subadvisor to the fund and day-to-day portfolio management of the fund transitioned to Deutsche Investment Management Americas Inc.

The new portfolio management team for the fund is as follows:

Owen Fitzpatrick, CFA
Lead Portfolio Manager, Deutsche Investment Management Americas Inc.

Thomas M. Hynes, Jr., CFA
Brendan O'Neill, CFA
Pankaj Bhatnagar, PhD
Portfolio Managers, Deutsche Investment Management Americas Inc.

	Shares	Value ($)
Common Stocks 98.7%		
Consumer Discretionary 10.7%		
Auto Components 0.5%		
Cooper Tire & Rubber Co.	20,300	673,351
Magna International, Inc.	3,800	270,636
Stoneridge, Inc.*	13,800	160,632
		1,104,619
Diversified Consumer Services 0.1%		
H&R Block, Inc.	5,000	**138,750**
Hotels, Restaurants & Leisure 1.0%		
Las Vegas Sands Corp.	20,400	1,079,772
Six Flags Entertainment Corp.	5,200	182,832
Starwood Hotels & Resorts Worldwide, Inc.	10,400	657,176
		1,919,780
Household Durables 0.7%		
Sony Corp. (ADR)	6,400	135,616
Whirlpool Corp.	11,500	1,315,140
		1,450,756
Leisure Equipment & Products 1.2%		
Smith & Wesson Holding Corp.*	237,800	**2,373,244**
Media 3.3%		
Comcast Corp. "A"	79,000	3,308,520
Comcast Corp. Special "A"	7,100	281,657
DIRECTV*	13,100	807,222
Time Warner, Inc.	12,500	722,750
Walt Disney Co. (a)	21,400	1,351,410
		6,471,559
Multiline Retail 0.2%		
Dillard's, Inc. "A"	5,615	**460,262**
Specialty Retail 3.7%		
Best Buy Co., Inc. (a)	103,000	2,814,990
Brown Shoe Co., Inc. (a)	6,000	129,180
GameStop Corp. "A"	8,600	361,458
Home Depot, Inc.	2,000	154,940
The Gap, Inc.	64,000	2,670,720
TJX Companies, Inc.	22,000	1,101,320
		7,232,608
Consumer Staples 10.1%		
Beverages 0.4%		
PepsiCo, Inc.	9,100	**744,289**
Food & Staples Retailing 3.6%		
Costco Wholesale Corp.	14,100	1,559,037
CVS Caremark Corp.	20,000	1,143,600
Kroger Co.	70,900	2,448,886
Walgreen Co.	42,800	1,891,760
		7,043,283
Food Products 2.5%		
General Mills, Inc.	18,400	892,952
Green Mountain Coffee Roasters, Inc.* (a)	3,000	225,180
The Hershey Co.	16,700	1,490,976
Tyson Foods, Inc. "A" (a)	92,200	2,367,696
Unilever PLC (ADR)	1,800	72,810
		5,049,614

	Shares	Value ($)
Household Products 0.7%		
Kimberly-Clark Corp. (a)	13,600	**1,321,104**
Personal Products 0.5%		
Avon Products, Inc.	44,800	**942,144**
Tobacco 2.4%		
Altria Group, Inc. (a)	37,100	1,298,129
Lorillard, Inc. (a)	78,200	3,415,776
		4,713,905
Energy 10.5%		
Oil, Gas & Consumable Fuels		
Alon U.S.A. Energy, Inc. (a)	5,200	75,192
Chevron Corp.	13,700	1,621,258
ConocoPhillips	3,200	193,600
Marathon Oil Corp.	34,400	1,189,552
Marathon Petroleum Corp.	40,700	2,892,142
Murphy Oil Corp.	8,700	529,743
Phillips 66	27,300	1,608,243
Royal Dutch Shell PLC (ADR)	55,200	3,521,760
Southwestern Energy Co.* (a)	25,700	938,821
Statoil ASA (ADR)	79,800	1,651,062
Tesoro Corp.	56,300	2,945,616
Valero Energy Corp.	58,000	2,016,660
Western Refining, Inc. (a)	54,100	1,518,587
		20,702,236
Financials 18.4%		
Capital Markets 2.2%		
Franklin Resources, Inc.	6,700	911,334
Invesco Ltd.	12,000	381,600
State Street Corp.	22,600	1,473,746
T. Rowe Price Group, Inc. (a)	8,000	585,200
The Goldman Sachs Group, Inc.	3,900	589,875
Waddell & Reed Financial, Inc. "A"	10,400	452,400
		4,394,155
Commercial Banks 2.6%		
First Niagara Financial Group, Inc.	7,300	73,511
PNC Financial Services Group, Inc.	14,600	1,064,632
Popular, Inc.* (a)	26,300	797,679
Regions Financial Corp.	150,300	1,432,359
SunTrust Banks, Inc.	9,600	303,072
Zions Bancorp. (a)	53,000	1,530,640
		5,201,893
Consumer Finance 1.5%		
Discover Financial Services	62,800	**2,991,792**
Diversified Financial Services 3.2%		
Bank of America Corp.	62,100	798,606
CBOE Holdings, Inc.	4,700	219,208
Citigroup, Inc.	41,200	1,976,364
JPMorgan Chase & Co.	62,600	3,304,654
		6,298,832
Insurance 6.9%		
Aflac, Inc.	21,400	1,243,768
Allstate Corp.	35,100	1,689,012
Arch Capital Group Ltd.* (a)	6,600	339,306
Axis Capital Holdings Ltd.	9,300	425,754
Chubb Corp.	20,900	1,769,185
Cincinnati Financial Corp.	10,100	463,590
Everest Re Group Ltd.	12,100	1,551,946

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

	Shares	Value ($)
MetLife, Inc.	8,600	393,536
Progressive Corp.	121,200	3,080,904
The Travelers Companies, Inc.	27,500	2,197,800
XL Group PLC	11,900	360,808
		13,515,609
Real Estate Investment Trusts 2.0%		
Host Hotels & Resorts, Inc. (REIT)	40,500	683,235
Potlatch Corp. (REIT)	1,700	68,748
The Geo Group, Inc. (REIT)	10,100	342,895
Weyerhaeuser Co. (REIT)	100,500	2,863,245
		3,958,123
Health Care 15.9%		
Biotechnology 4.0%		
Amgen, Inc.	14,200	1,400,972
Biogen Idec, Inc.*	9,900	2,130,480
Celgene Corp.*	20,400	2,384,964
Myriad Genetics, Inc.*	14,400	386,928
PDL BioPharma, Inc. (a)	208,200	1,607,304
		7,910,648
Health Care Equipment & Supplies 0.9%		
Abbott Laboratories	50,900	**1,775,392**
Health Care Providers & Services 5.7%		
Aetna, Inc.	50,200	3,189,708
AmerisourceBergen Corp.	24,700	1,379,001
Health Net, Inc.*	74,900	2,383,318
Humana, Inc.	15,000	1,265,700
WellPoint, Inc.	36,900	3,019,896
		11,237,623
Life Sciences Tools & Services 0.3%		
Covance, Inc.* (a)	5,300	403,542
PAREXEL International Corp.* (a)	3,900	179,166
		582,708
Pharmaceuticals 5.0%		
Actavis, Inc.*	12,000	1,514,640
Eli Lilly & Co.	58,600	2,878,432
Johnson & Johnson	47,500	4,078,350
Pfizer, Inc.	2,400	67,224
Sciclone Pharmaceuticals, Inc.*	14,500	71,920
Valeant Pharmaceuticals International, Inc.*	15,200	1,308,416
Warner Chilcott PLC "A"	800	15,904
		9,934,886
Industrials 9.4%		
Aerospace & Defense 6.2%		
Alliant Techsystems, Inc.	7,200	592,776
Boeing Co.	40,100	4,107,844
Exelis, Inc.	40,500	558,495
Huntington Ingalls Industries, Inc.	10,700	604,336
Lockheed Martin Corp.	9,400	1,019,524
Northrop Grumman Corp.	19,700	1,631,160
Raytheon Co. (a)	52,700	3,484,524
United Technologies Corp.	1,600	148,704
		12,147,363
Air Freight & Logistics 0.7%		
FedEx Corp.	13,700	**1,350,546**
Airlines 0.5%		
Delta Air Lines, Inc.*	56,700	**1,060,857**

	Shares	Value ($)
Building Products 0.3%		
A.O. Smith Corp.	8,400	304,752
Masco Corp.	15,000	292,350
		597,102
Commercial Services & Supplies 0.1%		
R.R. Donnelley & Sons Co. (a)	2,500	35,025
UniFirst Corp.	1,400	127,750
Viad Corp.	4,200	102,984
		265,759
Electrical Equipment 0.3%		
Coleman Cable, Inc.	10,700	193,242
Generac Holdings, Inc.	7,800	288,678
		481,920
Industrial Conglomerates 0.3%		
Koninklijke Philips Electronics NV	20,900	**568,271**
Machinery 0.8%		
Meritor, Inc.*	21,700	152,985
Mueller Water Products, Inc. "A" (a)	5,400	37,314
Oshkosh Corp.*	32,400	1,230,228
Trinity Industries, Inc.	5,500	211,420
		1,631,947
Road & Rail 0.2%		
Ryder System, Inc.	7,500	**455,925**
Information Technology 16.3%		
Communications Equipment 1.9%		
Cisco Systems, Inc.	57,000	1,385,670
InterDigital, Inc.	47,400	2,116,410
Research In Motion Ltd.* (a)	29,600	309,912
		3,811,992
Computers & Peripherals 4.4%		
Apple, Inc.	900	356,472
Hewlett-Packard Co.	137,700	3,414,960
Lexmark International, Inc. "A"	19,600	599,172
Seagate Technology PLC	22,300	999,709
Western Digital Corp.	52,700	3,272,143
		8,642,456
Internet Software & Services 3.1%		
AOL, Inc. (a)	85,400	3,115,392
eBay, Inc.*	47,300	2,446,356
Google, Inc. "A"*	400	352,148
Sohu.com, Inc.*	2,600	160,212
		6,074,108
IT Services 3.1%		
Accenture PLC "A"	15,700	1,129,772
Computer Sciences Corp. (a)	59,200	2,591,184
Convergys Corp. (a)	34,400	599,592
CoreLogic, Inc.*	27,000	625,590
International Business Machines Corp.	1,200	229,332
MAXIMUS, Inc.	200	14,896
Visa, Inc. "A" (a)	4,800	877,200
		6,067,566
Semiconductors & Semiconductor Equipment 2.4%		
Cree, Inc.* (a)	8,300	530,038
First Solar, Inc.* (a)	35,900	1,605,807
Intel Corp.	57,500	1,392,650
Kulicke & Soffa Industries, Inc.*	30,800	340,648
Texas Instruments, Inc.	25,800	899,646
		4,768,789

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

	Shares	Value ($)
Software 1.4%		
Activision Blizzard, Inc.	71,100	1,013,886
CA, Inc. (a)	22,200	635,586
Microsoft Corp.	35,200	1,215,456
		2,864,928
Materials 4.0%		
Chemicals 3.4%		
CF Industries Holdings, Inc.	6,200	1,063,300
Dow Chemical Co.	6,400	205,888
FutureFuel Corp.	26,400	374,088
LyondellBasell Industries NV "A"	19,300	1,278,818
Monsanto Co.	18,500	1,827,800
PPG Industries, Inc.	3,500	512,435
Westlake Chemical Corp.	13,900	1,340,099
		6,602,428
Metals & Mining 0.5%		
BHP Billiton PLC (ADR)	18,000	**922,860**
Paper & Forest Products 0.1%		
International Paper Co.	6,200	**274,722**
Telecommunication Services 1.5%		
Diversified Telecommunication Services		
CenturyLink, Inc.	9,100	321,685
Deutsche Telekom AG (ADR)	14,100	164,406
Nippon Telegraph & Telephone Corp. (ADR)	6,800	176,868
Verizon Communications, Inc. (a)	46,400	2,335,776
		2,998,735
Utilities 1.9%		
Multi-Utilities		
Consolidated Edison, Inc.	8,500	495,635
MDU Resources Group, Inc.	57,500	1,489,825
Public Service Enterprise Group, Inc.	50,900	1,662,393
		3,647,853
Total Common Stocks (Cost $171,503,388)		**194,705,941**
Securities Lending Collateral 17.4%		
Daily Assets Fund Institutional, 0.10% (b) (c) (Cost $34,382,415)	34,382,415	**34,382,415**
Cash Equivalents 1.1%		
Central Cash Management Fund, 0.07% (b) (Cost $2,159,766)	2,159,766	**2,159,766**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $208,045,569)†	117.2	**231,248,122**
Other Assets and Liabilities, Net (a)	(17.2)	**(34,001,838)**
Net Assets	100.0	**197,246,284**

* Non-income producing security.

† The cost for federal income tax purposes was $209,336,492. At June 30, 2013, net unrealized appreciation for all securities based on tax cost was $21,911,630. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $25,361,525 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,449,895.

(a) All or a portion of these securities were on loan amounting to $30,250,830. In addition, included in other assets and liabilities, net are pending sales, amounting to $3,001,767, that are also on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2013 amounted to $33,252,597, which is 16.9% 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.

ADR: American Depositary Receipt

REIT: Real Estate Investment Trust

At June 30, 2013, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
S&P 500 E-Mini Index	USD	9/20/2013	31	2,478,915	**(53,475)**

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.

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, 2013 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)	$194,705,941	$ —	$ —	$194,705,941
Short-Term Investments (d)	36,542,181	—	—	36,542,181
Total	**$231,248,122**	**$ —**	**$ —**	**$231,248,122**
Liabilities				
Derivatives (e)				
Futures Contracts	$ (53,475)	$ —	$ —	$ (53,475)
Total	**$ (53,475)**	**$ —**	**$ —**	**$ (53,475)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2013.

(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, 2013 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $171,503,388) — including $30,250,830 of securities loaned	$	194,705,941
Investment in Daily Assets Fund Institutional (cost $34,382,415)*		34,382,415
Investment in Central Cash Management Fund (cost $2,159,766)		2,159,766
Total investments in securities, at value (cost $208,045,569)		231,248,122
Cash		2,687
Deposit with broker for futures contracts		213,280
Receivable for investments sold		18,447,537
Receivable for Fund shares sold		1,197
Dividends receivable		165,951
Interest receivable		7,085
Foreign taxes recoverable		3,596
Other assets		1,824
Total assets		250,091,279

Liabilities		
Payable upon return of securities loaned		34,382,415
Payable for investments purchased		18,103,580
Payable for Fund shares redeemed		160,982
Payable for variation margin on futures contracts		53,475
Accrued management fee		64,125
Accrued Trustees' fees		259
Other accrued expenses and payables		80,159
Total liabilities		52,844,995
Net assets, at value	**$**	**197,246,284**

Net Assets Consist of		
Undistributed net investment income		1,424,862
Net unrealized appreciation (depreciation) on:		
Investments		23,202,553
Futures		(53,475)
Accumulated net realized gain (loss)		(44,965,835)
Paid-in capital		217,638,179
Net assets, at value	**$**	**197,246,284**
Class A		
Net Asset Value, offering and redemption price per share ($195,630,594 ÷ 20,337,948 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**9.62**
Class B		
Net Asset Value, offering and redemption price per share ($1,615,690 ÷ 167,913 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**9.62**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2013 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $26,358)	$	2,001,180
Income distributions — Central Cash Management Fund		837
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		79,579
Total income		2,081,596
Expenses:		
Management fee		380,568
Administration fee		97,582
Services to shareholders		1,754
Distribution service fee (Class B)		2,110
Custodian fee		12,069
Professional fees		26,723
Reports to shareholders		23,380
Trustees' fees and expenses		4,722
Total expenses		548,908
Net investment income		**1,532,688**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		20,387,728
Futures		239,251
Foreign currency		(188)
		20,626,791
Change in net unrealized appreciation (depreciation) on:		
Investments		3,783,685
Futures		(46,207)
		3,737,478
Net gain (loss)		**24,364,269**
Net increase (decrease) in net assets resulting from operations	**$**	**25,896,957**

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, 2013 (Unaudited)	Year Ended December 31, 2012
Operations:		
Net investment income	$ 1,532,688	$ 2,877,688
Net realized gain (loss)	20,626,791	14,826,400
Change in net unrealized appreciation (depreciation)	3,737,478	(1,133,622)
Net increase (decrease) in net assets resulting from operations	25,896,957	16,570,466
Distributions to shareholders from:		
Net investment income:		
Class A	(2,931,105)	(1,157,831)
Class B	(20,449)	(17,067)
Total distributions	(2,951,554)	(1,174,898)
Fund share transactions:		
Class A		
Proceeds from shares sold	4,778,060	5,653,743
Net assets acquired in tax-free reorganization*	—	103,303,156
Reinvestment of distributions	2,931,105	1,157,831
Payments for shares redeemed	(14,851,313)	(30,735,177)
Net increase (decrease) in net assets from Class A share transactions	(7,142,148)	79,379,553
Class B		
Proceeds from shares sold	5,578	52,927
Net assets acquired in tax-free reorganization*	—	34,921
Reinvestment of distributions	20,449	17,067
Payments for shares redeemed	(229,299)	(312,213)
Net increase (decrease) in net assets from Class B share transactions	(203,272)	(207,298)
Increase (decrease) in net assets	15,599,983	94,567,823
Net assets at beginning of period	181,646,301	87,078,478
Net assets at end of period (including undistributed net investment income of $1,424,862 and $2,843,728, respectively)	**$ 197,246,284**	**$ 181,646,301**

Other Information		
Class A		
Shares outstanding at beginning of period	21,101,010	11,456,872
Shares sold	500,702	703,069
Shares issued in tax-free reorganization*	—	12,597,547
Shares issued to shareholders in reinvestment of distributions	308,213	141,027
Shares redeemed	(1,571,977)	(3,797,505)
Net increase (decrease) in Class A shares	(763,062)	9,644,138
Shares outstanding at end of period	**20,337,948**	**21,101,010**
Class B		
Shares outstanding at beginning of period	188,843	214,502
Shares sold	594	6,501
Shares issued in tax-free reorganization*	—	4,259
Shares issued to shareholders in reinvestment of distributions	2,148	2,076
Shares redeemed	(23,672)	(38,495)
Net increase (decrease) in Class B shares	(20,930)	(25,659)
Shares outstanding at end of period	**167,913**	**188,843**

* 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 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$ 8.53**	**$ 7.46**	**$ 7.56**	**$ 6.71**	**$ 5.12**	**$10.81**
Income (loss) from investment operations:						
Net investment income[a]	.07	.15	.10	.09	.10	.10
Net realized and unrealized gain (loss)	1.16	1.03	(.10)	.87	1.61	(3.45)
Total from investment operations	1.23	1.18	.00	.96	1.71	(3.35)
Less distributions from:						
Net investment income	(.14)	(.11)	(.10)	(.11)	(.12)	(.18)
Net realized gains	—	—	—	—	—	(2.16)
Total distributions	(.14)	(.11)	(.10)	(.11)	(.12)	(2.34)
Net asset value, end of period	**$ 9.62**	**$ 8.53**	**$ 7.46**	**$ 7.56**	**$ 6.71**	**$ 5.12**
Total Return (%)	14.48**	15.81	(.14)	14.40[b]	34.15[b]	(38.31)[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	196	180	85	98	101	94
Ratio of expenses before expense reductions (%)	.57*	.59	.63	.63	.63	.60
Ratio of expenses after expense reductions (%)	.57*	.59	.63	.60	.54	.54
Ratio of net investment income (%)	1.56*	1.90	1.25	1.32	1.74	1.34
Portfolio turnover rate (%)	145**	307	215	145	82	130

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 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$ 8.51**	**$ 7.45**	**$ 7.55**	**$ 6.70**	**$ 5.12**	**$10.77**
Income (loss) from investment operations:						
Net investment income[a]	.07	.11	.08	.07	.08	.08
Net realized and unrealized gain (loss)	1.15	1.03	(.10)	.87	1.60	(3.42)
Total from investment operations	1.22	1.14	(.02)	.94	1.68	(3.34)
Less distributions from:						
Net investment income	(.11)	(.08)	(.08)	(.09)	(.10)	(.15)
Net realized gains	—	—	—	—	—	(2.16)
Total distributions	(.11)	(.08)	(.08)	(.09)	(.10)	(2.31)
Net asset value, end of period	**$ 9.62**	**$ 8.51**	**$ 7.45**	**$ 7.55**	**$ 6.70**	**$ 5.12**
Total Return (%)	14.39**	15.41	(.40)	14.12[b]	33.64[b]	(38.29)[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	2	2	2	2	2	2
Ratio of expenses before expense reductions (%)	.77*	.90	.88	.88	.89	.82
Ratio of expenses after expense reductions (%)	.77*	.90	.88	.85	.80	.77
Ratio of net investment income (%)	1.36*	1.41	.99	1.07	1.48	1.12
Portfolio turnover rate (%)	145**	307	215	145	82	130

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 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, 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").

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. Brown Brothers Harriman & Co., as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of June 30, 2013, the Fund had securities on loan with a gross value of $33,252,597. The value of the related collateral, $34,382,415, exceeded the value of the securities loaned at period end.

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 incurred post-enactment 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, 2012, the Fund had a net tax basis capital loss carryforward of approximately $63,882,000 of pre-enactment losses, including $27,700,000 inherited from its merger with DWS Blue Chip VIP in fiscal year 2012, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($34,761,000) and December 31, 2017 ($29,121,000), the respective expiration dates, whichever occurs first, and which may be subject to certain limitations under Sections 381–384 of the Internal Revenue Code.

In addition, from November 1, 2012 through December 31, 2012, the Fund elects to defer qualified late year net short-term realized capital losses of approximately $427,000 and treat them as arising in the fiscal year ending December 31, 2013.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2012 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 from net investment income of the Fund, if any, are 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 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 based upon the relative net assets or other appropriate measures.

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, 2013, 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, 2013, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $1,349,000 to $2,479,000.

The following table summarizes the value of the Fund's derivative instruments held as of June 30, 2013 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Liability Derivative	**Futures Contracts**
Equity Contracts (a)	$ (53,475)

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, 2013 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)	$ 239,251

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)	$ (46,207)

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, 2013, purchases and sales of investment securities (excluding short-term investments) aggregated $279,244,230 and $288,945,957, 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") acted as subadvisor to the Fund. As a subadvisor, QS Investors made investment decisions and buys and sells securities for the Fund. QS Investors was paid by the Advisor for the services QS Investors provided to the Fund. Effective July 12, 2013, QS Investors no longer acts as subadvisor to the Fund and day-to-day portfolio management of the Fund transitioned to DIMA.

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, 2013, 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, 2013, the Administration Fee was $97,582, of which $16,442 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, 2013, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2013
Class A	$ 266	$ 87
Class B	40	13
	$ 306	**$ 100**

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, 2013, the Distribution Service Fee aggregated $2,110, of which $336 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, 2013, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $7,995, all of which 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 Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and DWS Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and DWS Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that DWS Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in DWS Variable NAV Money Fund.

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 42% and 34%.

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, 2013.

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.

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, 2013 to June 30, 2013).

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, 2013

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/13	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,144.80	$1,143.90
Expenses Paid per $1,000*	$ 3.03	$ 4.04

Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 1/1/13	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,021.97	$1,021.03
Expenses Paid per $1,000*	$ 2.86	$ 3.81

* 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 181 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series I — DWS Core Equity VIP	.57%	.77%

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.

For an analysis of the fees associated with an investment in the Fund or similar funds, please refer to http://apps.finra.org/fundanalyzer/1/fa.aspx.

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 17, 2012

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 2012, 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, 2010 and 2011.

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 103 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 "fallout" 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 considered how aggregated DWS Fund performance measures relative to appropriate peers had varied by asset class and over time.

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 Distributors, Inc.
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VS1coreq-3 (R-028376-2 8/13)

JUNE 30, 2013

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.

DWS Investments is part of the Deutsche Asset & Wealth Management division of Deutsche Bank AG.

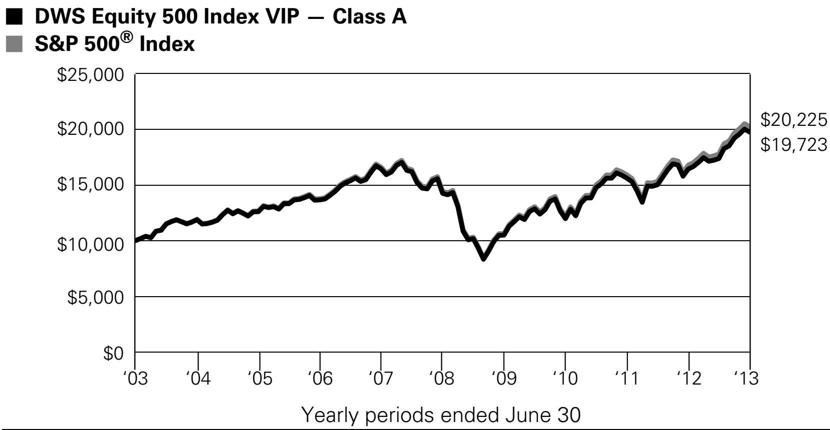
Performance Summary

June 30, 2013 (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, 2013 are 0.35%, 0.60% and 0.75% 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, 2013)

DWS Equity 500 Index VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,360	$12,025	$16,475	$13,864	$19,723
	Average annual total return	13.60%	20.25%	18.11%	6.75%	7.03%
S&P 500 Index	Growth of $10,000	$11,382	$12,060	$16,620	$14,033	$20,225
	Average annual total return	13.82%	20.60%	18.45%	7.01%	7.30%

DWS Equity 500 Index VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$11,353	$12,001	$16,355	$13,696	$19,253
	Average annual total return	13.53%	20.01%	17.82%	6.49%	6.77%
S&P 500 Index	Growth of $10,000	$11,382	$12,060	$16,620	$14,033	$20,225
	Average annual total return	13.82%	20.60%	18.45%	7.01%	7.30%

DWS Equity 500 Index VIP		6-Month‡	1-Year	3-Year	5-Year	Life of Class*
Class B2	Growth of $10,000	$11,344	$11,984	$16,282	$13,593	$14,592
	Average annual total return	13.44%	19.84%	17.64%	6.33%	4.98%
S&P 500 Index	Growth of $10,000	$11,382	$12,060	$16,620	$14,033	$15,415
	Average annual total return	13.82%	20.60%	18.45%	7.01%	5.74%

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, 2013, which is based on the performance period of the life of Class B2.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/13**	**12/31/12**
Common Stocks	99%	98%
Cash Equivalents	1%	2%
Government & Agency Obligations	0%	0%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/13**	**12/31/12**
Information Technology	18%	19%
Financials	16%	16%
Health Care	13%	12%
Consumer Discretionary	12%	11%
Energy	11%	11%
Consumer Staples	11%	11%
Industrials	10%	10%
Materials	3%	4%
Utilities	3%	3%
Telecommunication Services	3%	3%
	100%	100%

Ten Largest Equity Holdings (17.9% of Net Assets)	
1. Exxon Mobil Corp. Explorer and producer of oil and gas	**2.8%**
2. Apple, Inc. Designs, manufactures and markets personal computers and related computing and mobile communications devices	**2.6%**
3. Microsoft Corp. Develops, manufactures, licenses, sells and supports software products	**1.8%**
4. Johnson & Johnson Manufacturer of health care products and provider of related services	**1.7%**
5. General Electric Co. Globally diversified technology and financial services company	**1.6%**
6. Google, Inc. Provides a Web-based search engine for the Internet	**1.6%**
7. Chevron Corp. Operator of petroleum exploration, delivery and refining facilities	**1.6%**
8. Procter & Gamble Co. Manufacturer of diversified consumer products	**1.4%**
9. Berkshire Hathaway, Inc. Holding company of insurance business and a variety of other businesses	**1.4%**
10. Wells Fargo & Co. A diversified financial services company	**1.4%**

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 Manager

Brent Reeder

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

	Shares	Value ($)
Common Stocks 98.7%		
Consumer Discretionary 12.0%		
Auto Components 0.4%		
BorgWarner, Inc.*	4,388	378,026
Delphi Automotive PLC	11,144	564,889
Goodyear Tire & Rubber Co.*	9,286	141,983
Johnson Controls, Inc.	26,484	947,863
		2,032,761
Automobiles 0.7%		
Ford Motor Co.	151,077	2,337,161
General Motors Co.*	29,673	988,408
Harley-Davidson, Inc.	8,628	472,987
		3,798,556
Distributors 0.1%		
Genuine Parts Co.	5,993	**467,874**
Diversified Consumer Services 0.1%		
H&R Block, Inc.	10,603	**294,233**
Hotels, Restaurants & Leisure 1.8%		
Carnival Corp.	16,953	581,318
Chipotle Mexican Grill, Inc.*	1,176	428,476
Darden Restaurants, Inc.	5,075	256,186
International Game Technology	9,742	162,789
Marriott International, Inc. "A"	9,186	370,839
McDonald's Corp.	38,565	3,817,935
Starbucks Corp.	28,725	1,881,200
Starwood Hotels & Resorts Worldwide, Inc.	7,407	468,048
Wyndham Worldwide Corp.	5,175	296,165
Wynn Resorts Ltd.	3,082	394,496
Yum! Brands, Inc.	17,282	1,198,334
		9,855,786
Household Durables 0.3%		
D.R. Horton, Inc.	10,774	229,271
Garmin Ltd. (a)	4,310	155,850
Harman International Industries, Inc.	2,537	137,505
Leggett & Platt, Inc.	5,497	170,902
Lennar Corp. "A" (a)	6,387	230,187
Newell Rubbermaid, Inc.	10,955	287,569
Pulte Group, Inc.* (a)	12,949	245,643
Whirlpool Corp.	3,043	347,997
		1,804,924
Internet & Catalog Retail 1.1%		
Amazon.com, Inc.*	13,998	3,887,104
Expedia, Inc.	3,585	215,638
Netflix, Inc.*	2,165	457,010
Priceline.com, Inc.*	1,982	1,639,372
TripAdvisor, Inc.*	4,249	258,637
		6,457,761
Leisure Equipment & Products 0.1%		
Hasbro, Inc. (a)	4,451	199,538
Mattel, Inc.	13,323	603,665
		803,203
Media 3.6%		
Cablevision Systems Corp. (New York Group) "A"	8,502	143,004
CBS Corp. "B"	21,920	1,071,230
Comcast Corp. "A"	101,180	4,237,418
DIRECTV*	21,457	1,322,180
Discovery Communications, Inc. "A"* (a)	9,361	722,763
Gannett Co., Inc.	8,951	218,942
Interpublic Group of Companies, Inc.	16,400	238,620
News Corp. "A"	76,651	2,498,823
Omnicom Group, Inc. (a)	9,989	628,008
Scripps Networks Interactive "A"	3,309	220,909
Time Warner Cable, Inc.	11,180	1,257,526
Time Warner, Inc.	35,830	2,071,691
Viacom, Inc. "B"	17,135	1,166,037
Walt Disney Co. (a)	69,203	4,370,169
Washington Post Co. "B" (a)	168	81,273
		20,248,593
Multiline Retail 0.8%		
Dollar General Corp.*	11,519	580,903
Dollar Tree, Inc.*	8,549	434,631
Family Dollar Stores, Inc.	3,614	225,188
J.C. Penney Co., Inc.* (a)	5,336	91,139
Kohl's Corp.	7,856	396,807
Macy's, Inc.	14,805	710,640
Nordstrom, Inc.	5,674	340,100
Target Corp. (a)	24,689	1,700,084
		4,479,492
Specialty Retail 2.3%		
Abercrombie & Fitch Co. "A"	3,046	137,831
AutoNation, Inc.*	1,567	67,992
AutoZone, Inc.*	1,391	589,353
Bed Bath & Beyond, Inc.*	8,402	595,702
Best Buy Co., Inc.	10,372	283,467
CarMax, Inc.*	8,617	397,761
GameStop Corp. "A" (a)	4,453	187,160
Home Depot, Inc.	56,146	4,349,631
L Brands, Inc.	9,267	456,400
Lowe's Companies, Inc.	41,218	1,685,816
O'Reilly Automotive, Inc.*	4,263	480,099
PetSmart, Inc.	3,891	260,658
Ross Stores, Inc.	8,485	549,913
Staples, Inc.	25,521	404,763
The Gap, Inc.	11,143	464,997
Tiffany & Co.	4,656	339,143
TJX Companies, Inc.	27,658	1,384,559
Urban Outfitters, Inc.*	4,242	170,613
		12,805,858
Textiles, Apparel & Luxury Goods 0.7%		
Coach, Inc.	10,746	613,489
Fossil Group, Inc.*	2,062	213,025
NIKE, Inc. "B"	27,807	1,770,750
PVH Corp.	3,116	389,656
Ralph Lauren Corp.	2,359	409,853
VF Corp.	3,373	651,191
		4,047,964
Consumer Staples 10.4%		
Beverages 2.4%		
Beam, Inc.	6,193	390,840
Brown-Forman Corp. "B"	5,867	396,316
Coca-Cola Co.	147,193	5,903,911
Coca-Cola Enterprises, Inc.	9,984	351,037
Constellation Brands, Inc. "A"*	5,963	310,792

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

	Shares	Value ($)
Dr. Pepper Snapple Group, Inc.	7,729	354,993
Molson Coors Brewing Co. "B"	6,097	291,802
Monster Beverage Corp.*	5,626	341,892
PepsiCo, Inc.	59,426	4,860,453
		13,202,036
Food & Staples Retailing 2.3%		
Costco Wholesale Corp. (a)	16,783	1,855,696
CVS Caremark Corp.	47,040	2,689,747
Kroger Co.	20,122	695,014
Safeway, Inc. (a)	9,302	220,085
Sysco Corp. (a)	22,784	778,302
Wal-Mart Stores, Inc.	62,970	4,690,635
Walgreen Co.	33,174	1,466,291
Whole Foods Market, Inc.	13,220	680,566
		13,076,336
Food Products 1.7%		
Archer-Daniels-Midland Co.	25,254	856,363
Campbell Soup Co. (a)	6,775	303,452
ConAgra Foods, Inc.	15,982	558,251
General Mills, Inc.	24,785	1,202,816
Hormel Foods Corp.	5,219	201,349
Kellogg Co. (a)	9,723	624,508
Kraft Foods Group, Inc.	22,894	1,279,088
McCormick & Co., Inc.	5,027	353,700
Mead Johnson Nutrition Co.	7,834	620,688
Mondelez International, Inc. "A"	68,568	1,956,245
The Hershey Co. (a)	5,800	517,824
The JM Smucker Co.	4,155	428,588
Tyson Foods, Inc. "A"	11,057	283,944
		9,186,816
Household Products 2.1%		
Clorox Co.	5,095	423,598
Colgate-Palmolive Co.	33,723	1,931,991
Kimberly-Clark Corp.	14,751	1,432,912
Procter & Gamble Co.	105,336	8,109,819
		11,898,320
Personal Products 0.2%		
Avon Products, Inc.	16,776	352,799
Estee Lauder Companies, Inc. "A"	9,255	608,702
		961,501
Tobacco 1.7%		
Altria Group, Inc.	77,061	2,696,365
Lorillard, Inc.	14,400	628,992
Philip Morris International, Inc.	62,878	5,446,492
Reynolds American, Inc. (a)	12,327	596,257
		9,368,106

Energy 10.4%

	Shares	Value ($)
Energy Equipment & Services 1.8%		
Baker Hughes, Inc.	16,888	779,044
Cameron International Corp.*	9,478	579,675
Diamond Offshore Drilling, Inc. (a)	2,688	184,908
Ensco PLC "A"	8,901	517,326
FMC Technologies, Inc.* (a)	9,187	511,532
Halliburton Co.	35,924	1,498,749
Helmerich & Payne, Inc.	4,147	258,980
Nabors Industries Ltd.	11,194	171,380
National Oilwell Varco, Inc.	16,356	1,126,929
Noble Corp.	9,761	366,818
Rowan Companies PLC "A"*	4,875	166,091
Schlumberger Ltd.	51,064	3,659,246
		9,820,678
Oil, Gas & Consumable Fuels 8.6%		
Anadarko Petroleum Corp.	19,292	1,657,762
Apache Corp.	15,012	1,258,456
Cabot Oil & Gas Corp.	8,051	571,782
Chesapeake Energy Corp. (a)	20,166	410,983
Chevron Corp.	74,555	8,822,839
ConocoPhillips	46,956	2,840,838
CONSOL Energy, Inc.	8,881	240,675
Denbury Resources, Inc.*	14,098	244,177
Devon Energy Corp.	14,467	750,548
EOG Resources, Inc.	10,490	1,381,323
EQT Corp.	5,731	454,869
Exxon Mobil Corp.	170,858	15,437,020
Hess Corp.	11,539	767,228
Kinder Morgan, Inc.	24,157	921,590
Marathon Oil Corp.	27,385	946,973
Marathon Petroleum Corp.	12,475	886,473
Murphy Oil Corp.	6,903	420,324
Newfield Exploration Co.*	5,130	122,556
Noble Energy, Inc.	13,748	825,430
Occidental Petroleum Corp.	30,985	2,764,791
Peabody Energy Corp.	10,575	154,818
Phillips 66	23,812	1,402,765
Pioneer Natural Resources Co.	5,245	759,214
QEP Resources, Inc.	7,034	195,404
Range Resources Corp.	6,230	481,704
Southwestern Energy Co.*	13,607	497,064
Spectra Energy Corp.	25,843	890,550
Tesoro Corp.	5,182	271,122
Valero Energy Corp.	20,913	727,145
Williams Companies, Inc.	26,400	857,208
WPX Energy, Inc.*	7,705	145,933
		48,109,564

Financials 16.4%

	Shares	Value ($)
Capital Markets 2.1%		
Ameriprise Financial, Inc.	7,757	627,386
Bank of New York Mellon Corp.	44,539	1,249,319
BlackRock, Inc.	4,779	1,227,486
Charles Schwab Corp. (a)	42,065	893,040
E*TRADE Financial Corp.*	11,017	139,475
Franklin Resources, Inc.	5,296	720,362
Invesco Ltd.	17,056	542,381
Legg Mason, Inc. (a)	4,158	128,940
Morgan Stanley	52,578	1,284,481
Northern Trust Corp.	8,915	516,178
State Street Corp.	17,492	1,140,653
T. Rowe Price Group, Inc. (a)	9,879	722,649
The Goldman Sachs Group, Inc.	16,567	2,505,759
		11,698,109
Commercial Banks 2.9%		
BB&T Corp. (a)	26,827	908,899
Comerica, Inc.	7,050	280,801
Fifth Third Bancorp. (a)	33,597	606,426
Huntington Bancshares, Inc.	32,393	255,257
KeyCorp	35,263	389,304
M&T Bank Corp. (a)	4,742	529,918
PNC Financial Services Group, Inc.	20,416	1,488,735
Regions Financial Corp.	54,107	515,640
SunTrust Banks, Inc. (a)	20,578	649,647
U.S. Bancorp.	71,149	2,572,036
Wells Fargo & Co.	189,390	7,816,125

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

	Shares	Value ($)
Zions Bancorp. (a)	7,054	203,720
		16,216,508
Consumer Finance 1.0%		
American Express Co.	36,691	2,743,019
Capital One Financial Corp.	22,481	1,412,032
Discover Financial Services	18,758	893,631
SLM Corp.	17,111	391,157
		5,439,839
Diversified Financial Services 3.9%		
Bank of America Corp.	414,028	5,324,400
Citigroup, Inc.	116,956	5,610,379
CME Group, Inc.	11,821	898,160
IntercontinentalExchange, Inc.* (a)	2,817	500,750
JPMorgan Chase & Co.	145,285	7,669,595
Leucadia National Corp.	11,209	293,900
McGraw-Hill Companies, Inc.	10,536	560,410
Moody's Corp.	7,503	457,158
NYSE Euronext	9,231	382,163
The NASDAQ OMX Group, Inc.	4,616	151,359
		21,848,274
Insurance 4.3%		
ACE Ltd.	13,036	1,166,461
Aflac, Inc.	17,948	1,043,138
Allstate Corp.	17,992	865,775
American International Group, Inc.*	56,813	2,539,541
Aon PLC	11,909	766,344
Assurant, Inc.	2,971	151,254
Berkshire Hathaway, Inc. "B"*	70,123	7,848,166
Chubb Corp.	9,907	838,627
Cincinnati Financial Corp.	5,686	260,987
Genworth Financial, Inc. "A"*	18,810	214,622
Hartford Financial Services Group, Inc.	17,514	541,533
Lincoln National Corp.	10,305	375,823
Loews Corp.	11,769	522,544
Marsh & McLennan Companies, Inc.	21,195	846,104
MetLife, Inc.	42,138	1,928,235
Principal Financial Group, Inc. (a)	10,542	394,798
Progressive Corp.	21,268	540,633
Prudential Financial, Inc.	17,955	1,311,254
The Travelers Companies, Inc.	14,504	1,159,160
Torchmark Corp.	3,611	235,220
Unum Group	10,197	299,486
XL Group PLC	11,210	339,887
		24,189,592
Real Estate Investment Trusts 2.1%		
American Tower Corp. (REIT)	15,161	1,109,330
Apartment Investment & Management Co. "A" (REIT)	5,677	170,537
AvalonBay Communities, Inc. (REIT)	4,659	628,546
Boston Properties, Inc. (REIT)	5,824	614,257
Equity Residential (REIT) (a)	12,256	711,583
HCP, Inc. (REIT)	17,388	790,111
Health Care REIT, Inc. (REIT) (a)	10,913	731,498
Host Hotels & Resorts, Inc. (REIT)	28,596	482,415
Kimco Realty Corp. (REIT)	15,823	339,087
Plum Creek Timber Co., Inc. (REIT)	6,331	295,468
Prologis, Inc. (REIT) (a)	19,188	723,771
Public Storage (REIT)	5,544	850,062
Simon Property Group, Inc. (REIT)	11,945	1,886,354
The Macerich Co. (REIT)	5,363	326,982
Ventas, Inc. (REIT)	11,319	786,218
Vornado Realty Trust (REIT) (a)	6,553	542,916
Weyerhaeuser Co. (REIT)	20,892	595,213
		11,584,348
Real Estate Management & Development 0.0%		
CBRE Group, Inc. "A"*	11,727	**273,943**
Thrifts & Mortgage Finance 0.1%		
Hudson City Bancorp., Inc.	18,794	172,153
People's United Financial, Inc. (a)	12,882	191,942
		364,095
Health Care 12.6%		
Biotechnology 2.0%		
Alexion Pharmaceuticals, Inc.*	7,484	690,324
Amgen, Inc.	28,825	2,843,874
Biogen Idec, Inc.*	9,123	1,963,270
Celgene Corp.*	16,049	1,876,288
Gilead Sciences, Inc.* (a)	58,623	3,002,084
Regeneron Pharmaceuticals, Inc.* (a)	2,928	658,449
		11,034,289
Health Care Equipment & Supplies 2.1%		
Abbott Laboratories	59,935	2,090,533
Baxter International, Inc.	20,812	1,441,647
Becton, Dickinson & Co.	7,414	732,725
Boston Scientific Corp.*	51,732	479,556
C.R. Bard, Inc. (a)	2,891	314,194
CareFusion Corp.*	8,320	306,592
Covidien PLC	18,116	1,138,409
DENTSPLY International, Inc.	5,554	227,492
Edwards Lifesciences Corp.*	4,304	289,229
Intuitive Surgical, Inc.*	1,548	784,186
Medtronic, Inc.	38,802	1,997,139
St. Jude Medical, Inc.	10,845	494,857
Stryker Corp.	11,107	718,401
Varian Medical Systems, Inc.*	4,218	284,504
Zimmer Holdings, Inc.	6,436	482,314
		11,781,778
Health Care Providers & Services 2.0%		
Aetna, Inc.	14,533	923,427
AmerisourceBergen Corp.	8,935	498,841
Cardinal Health, Inc.	13,231	624,503
CIGNA Corp.	10,933	792,533
DaVita HealthCare Partners, Inc.*	3,274	395,499
Express Scripts Holding Co.*	31,390	1,936,449
Humana, Inc.	6,011	507,208
Laboratory Corp. of America Holdings* (a)	3,527	353,053
McKesson Corp.	8,716	997,982
Patterson Companies, Inc.	3,146	118,290
Quest Diagnostics, Inc. (a)	6,055	367,115
Tenet Healthcare Corp.*	4,088	188,457
UnitedHealth Group, Inc.	39,154	2,563,804
WellPoint, Inc.	11,531	943,697
		11,210,858
Health Care Technology 0.1%		
Cerner Corp.*	5,582	**536,374**
Life Sciences Tools & Services 0.5%		
Agilent Technologies, Inc.	13,168	563,064
Life Technologies Corp.*	6,674	493,943
PerkinElmer, Inc.	4,220	137,150
Thermo Fisher Scientific, Inc. (a)	13,829	1,170,348

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

	Shares	Value ($)
Waters Corp.*	3,329	333,066
		2,697,571
Pharmaceuticals 5.9%		
AbbVie, Inc.	60,867	2,516,242
Actavis, Inc.*	4,896	617,973
Allergan, Inc.	11,392	959,662
Bristol-Myers Squibb Co.	63,134	2,821,459
Eli Lilly & Co.	38,061	1,869,556
Forest Laboratories, Inc.*	8,901	364,941
Hospira, Inc.* (a)	6,321	242,158
Johnson & Johnson	107,977	9,270,905
Merck & Co., Inc.	116,076	5,391,730
Mylan, Inc.* (a)	14,638	454,217
Perrigo Co.	3,419	413,699
Pfizer, Inc.	255,640	7,160,477
Zoetis, Inc.	19,766	610,581
		32,693,600
Industrials 10.0%		
Aerospace & Defense 2.5%		
Boeing Co.	26,262	2,690,279
General Dynamics Corp.	12,749	998,629
Honeywell International, Inc.	30,275	2,402,019
L-3 Communications Holdings, Inc.	3,490	299,233
Lockheed Martin Corp. (a)	10,184	1,104,557
Northrop Grumman Corp.	9,029	747,601
Precision Castparts Corp.	5,619	1,269,950
Raytheon Co.	12,445	822,863
Rockwell Collins, Inc.	5,203	329,922
Textron, Inc.	10,692	278,527
United Technologies Corp.	32,544	3,024,639
		13,968,219
Air Freight & Logistics 0.7%		
C.H. Robinson Worldwide, Inc.	6,124	344,843
Expeditors International of Washington, Inc.	8,012	304,536
FedEx Corp.	11,345	1,118,390
United Parcel Service, Inc. "B"	27,302	2,361,077
		4,128,846
Airlines 0.1%		
Southwest Airlines Co.	27,487	**354,307**
Building Products 0.0%		
Masco Corp.	13,760	**268,182**
Commercial Services & Supplies 0.5%		
ADT Corp. (a)	8,365	333,345
Avery Dennison Corp.	3,899	166,721
Cintas Corp.	3,927	178,836
Iron Mountain, Inc.	6,433	171,182
Pitney Bowes, Inc. (a)	7,673	112,640
Republic Services, Inc.	11,250	381,825
Stericycle, Inc.*	3,332	367,953
Tyco International Ltd.	17,850	588,157
Waste Management, Inc.	16,779	676,697
		2,977,356
Construction & Engineering 0.2%		
Fluor Corp.	6,317	374,661
Jacobs Engineering Group, Inc.*	5,051	278,462
Quanta Services, Inc.*	8,141	215,411
		868,534
Electrical Equipment 0.7%		
Eaton Corp. PLC	18,215	1,198,729
Emerson Electric Co. (a)	27,529	1,501,432
Rockwell Automation, Inc.	5,400	448,956
Roper Industries, Inc.	3,827	475,390
		3,624,507
Industrial Conglomerates 2.4%		
3M Co.	24,366	2,664,422
Danaher Corp.	22,286	1,410,704
General Electric Co.	397,455	9,216,981
		13,292,107
Machinery 1.7%		
Caterpillar, Inc. (a)	25,275	2,084,935
Cummins, Inc.	6,774	734,708
Deere & Co.	14,947	1,214,444
Dover Corp.	6,571	510,304
Flowserve Corp. (a)	5,421	292,788
Illinois Tool Works, Inc. (a)	15,954	1,103,538
Ingersoll-Rand PLC	10,601	588,568
Joy Global, Inc.	4,047	196,401
PACCAR, Inc. (a)	13,623	731,010
Pall Corp. (a)	4,354	289,236
Parker Hannifin Corp.	5,756	549,123
Pentair Ltd. (Registered)	7,860	453,443
Snap-on, Inc.	2,191	195,832
Stanley Black & Decker, Inc.	6,264	484,207
Xylem, Inc.	7,228	194,722
		9,623,259
Professional Services 0.1%		
Dun & Bradstreet Corp. (a)	1,582	154,166
Equifax, Inc.	4,575	269,605
Robert Half International, Inc.	5,469	181,735
		605,506
Road & Rail 0.9%		
CSX Corp.	39,119	907,170
Kansas City Southern	4,224	447,575
Norfolk Southern Corp.	12,053	875,650
Ryder System, Inc.	2,058	125,106
Union Pacific Corp.	17,926	2,765,623
		5,121,124
Trading Companies & Distributors 0.2%		
Fastenal Co.	10,287	471,659
W.W. Grainger, Inc.	2,312	583,040
		1,054,699
Information Technology 17.6%		
Communications Equipment 1.9%		
Cisco Systems, Inc.	205,419	4,993,736
F5 Networks, Inc.*	3,027	208,258
Harris Corp.	4,138	203,796
JDS Uniphase Corp.*	8,939	128,543
Juniper Networks, Inc.*	19,275	372,200
Motorola Solutions, Inc.	10,459	603,798
QUALCOMM, Inc.	66,414	4,056,567
		10,566,898
Computers & Peripherals 3.8%		
Apple, Inc.	36,076	14,288,982
Dell, Inc.	56,495	754,208
EMC Corp.	80,771	1,907,811
Hewlett-Packard Co.	74,123	1,838,251
NetApp, Inc.*	13,894	524,915
SanDisk Corp.*	9,370	572,507
Seagate Technology PLC	12,248	549,078
Western Digital Corp.	8,197	508,952
		20,944,704

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

	Shares	Value ($)
Electronic Equipment, Instruments & Components 0.4%		
Amphenol Corp. "A"	6,205	483,618
Corning, Inc.	56,513	804,180
FLIR Systems, Inc.	5,486	147,957
Jabil Circuit, Inc.	6,864	139,888
Molex, Inc.	5,240	153,742
TE Connectivity Ltd.	15,927	725,316
		2,454,701
Internet Software & Services 2.3%		
Akamai Technologies, Inc.*	6,821	290,233
eBay, Inc.*	44,935	2,324,038
Google, Inc. "A"*	10,328	9,092,461
VeriSign, Inc.*	5,901	263,539
Yahoo!, Inc.*	36,606	919,177
		12,889,448
IT Services 3.6%		
Accenture PLC "A"	24,992	1,798,424
Automatic Data Processing, Inc.	18,617	1,281,967
Cognizant Technology Solutions Corp. "A"*	11,642	728,906
Computer Sciences Corp.	5,753	251,809
Fidelity National Information Services, Inc.	11,259	482,336
Fiserv, Inc.*	5,064	442,644
International Business Machines Corp.	40,060	7,655,867
MasterCard, Inc. "A"	4,019	2,308,915
Paychex, Inc. (a)	12,532	457,669
SAIC, Inc. (a)	11,149	155,306
Teradata Corp.*	6,284	315,645
Total System Services, Inc.	6,128	150,013
Visa, Inc. "A" (a)	19,482	3,560,335
Western Union Co.	21,528	368,344
		19,958,180
Office Electronics 0.1%		
Xerox Corp.	46,800	**424,476**
Semiconductors & Semiconductor Equipment 2.1%		
Advanced Micro Devices, Inc.* (a)	23,910	97,553
Altera Corp.	12,285	405,282
Analog Devices, Inc.	11,957	538,783
Applied Materials, Inc.	46,002	685,890
Broadcom Corp. "A"	20,082	677,968
First Solar, Inc.*	2,554	114,240
Intel Corp. (a)	191,090	4,628,200
KLA-Tencor Corp.	6,292	350,653
Lam Research Corp.*	6,314	279,963
Linear Technology Corp.	8,885	327,323
LSI Corp.*	20,717	147,919
Microchip Technology, Inc. (a)	7,615	283,659
Micron Technology, Inc.* (a)	39,630	567,898
NVIDIA Corp. (a)	22,257	312,266
Teradyne, Inc.*	7,262	127,593
Texas Instruments, Inc.	42,692	1,488,670
Xilinx, Inc.	10,199	403,982
		11,437,842
Software 3.4%		
Adobe Systems, Inc.*	19,362	882,133
Autodesk, Inc.*	8,571	290,900
BMC Software, Inc.*	5,120	231,117
CA, Inc.	12,609	360,996
Citrix Systems, Inc.*	7,210	434,979
Electronic Arts, Inc.*	11,504	264,247
Intuit, Inc.	10,686	652,167
Microsoft Corp.	288,738	9,970,123
Oracle Corp.	141,238	4,338,831
Red Hat, Inc.*	7,289	348,560
Salesforce.com, Inc.* (a)	20,925	798,916
Symantec Corp.	26,853	603,387
		19,176,356
Materials 3.2%		
Chemicals 2.4%		
Air Products & Chemicals, Inc. (a)	7,967	729,538
Airgas, Inc.	2,534	241,896
CF Industries Holdings, Inc.	2,280	391,020
Dow Chemical Co.	46,505	1,496,066
E.I. du Pont de Nemours & Co.	35,390	1,857,975
Eastman Chemical Co.	5,964	417,540
Ecolab, Inc.	10,281	875,838
FMC Corp.	5,178	316,169
International Flavors & Fragrances, Inc.	3,147	236,528
LyondellBasell Industries NV "A"	14,549	964,017
Monsanto Co.	20,542	2,029,550
PPG Industries, Inc.	5,475	801,595
Praxair, Inc.	11,366	1,308,908
Sigma-Aldrich Corp. (a)	4,642	373,031
The Mosaic Co.	10,691	575,283
The Sherwin-Williams Co.	3,282	579,601
		13,194,555
Construction Materials 0.0%		
Vulcan Materials Co.	5,053	**244,616**
Containers & Packaging 0.2%		
Ball Corp.	5,619	233,413
Bemis Co., Inc.	3,932	153,898
MeadWestvaco Corp.	6,753	230,345
Owens-Illinois, Inc.*	6,261	173,993
Sealed Air Corp.	7,690	184,176
		975,825
Metals & Mining 0.5%		
Alcoa, Inc.	40,705	318,313
Allegheny Technologies, Inc.	4,265	112,212
Cliffs Natural Resources, Inc. (a)	6,056	98,410
Freeport-McMoRan Copper & Gold, Inc.	39,797	1,098,795
Newmont Mining Corp.	19,216	575,519
Nucor Corp.	12,202	528,591
United States Steel Corp. (a)	5,334	93,505
		2,825,345
Paper & Forest Products 0.1%		
International Paper Co.	17,136	**759,296**
Telecommunication Services 2.8%		
Diversified Telecommunication Services 2.5%		
AT&T, Inc.	206,786	7,320,224
CenturyLink, Inc. (a)	23,404	827,331
Frontier Communications Corp. (a)	39,212	158,809
Verizon Communications, Inc.	109,967	5,535,739
Windstream Corp. (a)	22,712	175,110
		14,017,213
Wireless Telecommunication Services 0.3%		
Crown Castle International Corp.*	11,238	813,519
Sprint Nextel Corp.* (a)	115,339	809,679
		1,623,198

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

	Shares	Value ($)
Utilities 3.3%		
Electric Utilities 1.9%		
American Electric Power Co., Inc.	18,664	835,774
Duke Energy Corp.	27,070	1,827,225
Edison International	12,622	607,875
Entergy Corp.	6,900	480,792
Exelon Corp.	32,810	1,013,173
FirstEnergy Corp.	16,034	598,710
NextEra Energy, Inc.	16,274	1,326,005
Northeast Utilities	12,100	508,442
Pepco Holdings, Inc.	9,497	191,459
Pinnacle West Capital Corp.	4,274	237,079
PPL Corp.	22,733	687,901
Southern Co.	33,425	1,475,045
Xcel Energy, Inc.	19,123	541,946
		10,331,426
Gas Utilities 0.1%		
AGL Resources, Inc.	4,629	198,399
ONEOK, Inc.	7,968	329,158
		527,557
Independent Power Producers & Energy Traders 0.1%		
AES Corp.	23,951	287,173
NRG Energy, Inc.	12,236	326,701
		613,874
Multi-Utilities 1.2%		
Ameren Corp.	9,195	316,676
CenterPoint Energy, Inc.	16,654	391,202
CMS Energy Corp.	10,120	274,960
Consolidated Edison, Inc. (a)	11,272	657,270
Dominion Resources, Inc.	22,119	1,256,802
DTE Energy Co.	6,720	450,307
Integrys Energy Group, Inc.	2,994	175,239
NiSource, Inc.	12,032	344,596
PG&E Corp.	17,077	780,931
Public Service Enterprise Group, Inc.	19,360	632,298
SCANA Corp.	5,355	262,931
Sempra Energy	8,679	709,595
TECO Energy, Inc.	7,974	137,073
Wisconsin Energy Corp.	8,894	364,565
		6,754,445
Total Common Stocks (Cost $394,617,221)		**549,896,141**

	Principal Amount ($)	Value ($)
Government & Agency Obligation 0.3%		
U.S. Treasury Obligation		
U.S. Treasury Bill, 0.085%**, 10/17/2013 (Cost $1,399,421) (b)	1,400,000	**1,399,779**

	Shares	Value ($)
Securities Lending Collateral 8.8%		
Daily Assets Fund Institutional, 0.10% (c) (d) (Cost $49,181,554)	49,181,554	**49,181,554**
Cash Equivalents 1.0%		
Central Cash Management Fund, 0.07% (c) (Cost $5,442,791)	5,442,791	**5,442,791**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $450,640,987)†	108.8	**605,920,265**
Other Assets and Liabilities, Net	(8.8)	**(49,064,374)**
Net Assets	100.0	**556,855,891**

* Non-income producing security.

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

† The cost for federal income tax purposes was $481,780,338. At June 30, 2013, net unrealized appreciation for all securities based on tax cost was $124,139,927. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $180,284,356 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $56,144,429.

(a) All or a portion of these securities were on loan. In addition, included in other assets and liabilities, net is a pending sale, that is also on loan (see Notes to Financial Statements). The value of securities loaned at June 30, 2013 amounted to $47,855,953, which is 8.6% of net assets.

(b) At June 30, 2013, 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, 2013, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
S&P 500 Index	USD	9/20/2013	93	7,436,745	**(21,623)**

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, 2013 in valuing the Fund's investments.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stocks (e)	$549,896,141	$ —	$ —	$549,896,141
Government & Agency Obligation	—	1,399,779	—	1,399,779
Short-Term Investments (e)	54,624,345	—	—	54,624,345
Total	**$604,520,486**	**$ 1,399,779**	**$ —**	**$605,920,265**
Liabilities				
Derivatives (f)	$ (21,623)	$ —	$ —	$ (21,623)
Total	**$ (21,623)**	**$ —**	**$ —**	**$ (21,623)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2013.

(e) See Investment Portfolio for additional detailed categorizations.

(f) 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, 2013 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $396,016,642) — including $47,855,953 of securities loaned	$ 551,295,920
Investment in Daily Assets Fund Institutional (cost $49,181,554)*	49,181,554
Investment in Central Cash Management Fund (cost $5,442,791)	5,442,791
Total investments in securities, at value (cost $450,640,987)	605,920,265
Cash	62,338
Receivable for investments sold	71,481
Receivable for Fund shares sold	5,010
Dividends receivable	679,573
Interest receivable	5,744
Foreign taxes recoverable	362
Other assets	4,288
Total assets	606,749,061
Liabilities	
Payable upon return of securities loaned	49,181,554
Payable for investments purchased	108,274
Payable for Fund shares redeemed	311,907
Payable for variation margin on futures contracts	34,009
Accrued management fee	92,812
Accrued Trustees' fees	427
Other accrued expenses and payables	164,187
Total liabilities	49,893,170
Net assets, at value	**$ 556,855,891**
Net Assets Consist of	
Undistributed net investment income	6,273,175
Net unrealized appreciation (depreciation) on:	
Investments	155,279,278
Futures	(21,623)
Accumulated net realized gain (loss)	55,594,370
Paid-in capital	339,730,691
Net assets, at value	**$ 556,855,891**
Class A	
Net Asset Value, offering and redemption price per share ($533,914,612 ÷ 32,608,373 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$ 16.37**
Class B	
Net Asset Value, offering and redemption price per share ($4,289,177 ÷ 261,745 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$ 16.39**
Class B2	
Net Asset Value, offering and redemption price per share ($18,652,102 ÷ 1,138,236 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$ 16.39**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2013 (Unaudited)

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $2,219)	$ 7,778,342
Interest	484
Income distributions — Central Cash Management Fund	6,268
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	39,495
Total income	7,824,589
Expenses:	
Management fee	730,269
Administration fee	365,134
Services to shareholders	3,610
Distribution service fees (Class B and Class B2)	72,370
Record keeping fee (Class B and Class B2)	14,445
Custodian fee	11,096
Professional fees	41,685
Reports to shareholders	45,009
Trustees' fees and expenses	15,226
Other	19,348
Total expenses before expense reductions	1,318,192
Expense reductions	(829)
Total expenses after expense reductions	1,317,363
Net investment income (loss)	**6,507,226**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	9,403,081
Futures	1,740,420
In-kind redemptions	75,739,517
	86,883,018
Change in net unrealized appreciation (depreciation) on:	
Investments	14,511,250
Futures	38,747
	14,549,997
Net gain (loss)	**101,433,015**
Net increase (decrease) in net assets resulting from operations	**$ 107,940,241**

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

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2013 (Unaudited)	Year Ended December 31, 2012
Operations:		
Net investment income (loss)	$ 6,507,226	$ 14,189,149
Net realized gain (loss)	86,883,018	17,292,980
Change in net unrealized appreciation (depreciation)	14,549,997	74,359,439
Net increase (decrease) in net assets resulting from operations	107,940,241	105,841,568
Distributions to shareholders from:		
Net investment income:		
Class A	(13,318,863)	(11,798,114)
Class B	(787,551)	(708,034)
Class B2	(282,229)	(250,108)
Net realized gains:		
Class A	(15,821,037)	—
Class B	(1,084,819)	—
Class B2	(427,037)	—
Total distributions	(31,721,536)	(12,756,256)
Fund share transactions:		
Class A		
Proceeds from shares sold	18,001,591	49,568,733
Reinvestment of distributions	29,139,900	11,798,114
Cost of shares redeemed	(51,136,673)	(110,046,133)
In-kind redemptions	(198,780,061)	—
Net increase (decrease) in net assets from Class A share transactions	(202,775,243)	(48,679,286)
Class B		
Proceeds from shares sold	1,557,753	4,477,029
Reinvestment of distributions	1,872,370	708,034
Cost of shares redeemed	(6,227,120)	(9,806,887)
In-kind redemptions	(45,503,334)	—
Net increase (decrease) in net assets from Class B share transactions	(48,300,331)	(4,621,824)
Class B2		
Proceeds from shares sold	197,251	473,923
Reinvestment of distributions	709,266	250,108
Cost of shares redeemed	(2,489,449)	(2,459,841)
Net increase (decrease) in net assets from Class B2 share transactions	(1,582,932)	(1,735,810)
Increase (decrease) in net assets	(176,439,801)	38,048,392
Net assets at beginning of period	733,295,692	695,247,300
Net assets at end of period (including undistributed net investment income of $6,273,175 and $14,154,592, respectively)	**$ 556,855,891**	**$ 733,295,692**

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2013 (Unaudited)	Year Ended December 31, 2012
Class A		
Shares outstanding at beginning of period	44,517,365	47,896,105
Shares sold	1,119,016	3,396,342
Shares issued to shareholders in reinvestment of distributions	1,809,932	818,177
Shares redeemed	(3,124,324)	(7,593,259)
In-kind redemptions	(11,713,616)	—
Net increase (decrease) in Class A shares	(11,908,992)	(3,378,740)
Shares outstanding at end of period	**32,608,373**	**44,517,365**
Class B		
Shares outstanding at beginning of period	3,108,562	3,425,349
Shares sold	95,696	309,884
Shares issued to shareholders in reinvestment of distributions	116,152	49,033
Shares redeemed	(378,846)	(675,704)
In-kind redemptions	(2,679,819)	—
Net increase (decrease) in Class B shares	(2,846,817)	(316,787)
Shares outstanding at end of period	**261,745**	**3,108,562**
Class B2		
Shares outstanding at beginning of period	1,234,243	1,355,747
Shares sold	11,875	32,979
Shares issued to shareholders in reinvestment of distributions	43,999	17,320
Shares redeemed	(151,881)	(171,803)
Net increase (decrease) in Class B2 shares	(96,007)	(121,504)
Shares outstanding at end of period	**1,138,236**	**1,234,243**

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

Financial Highlights

Class A	Six Months Ended 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$15.01**	**$13.20**	**$13.17**	**$11.68**	**$ 9.55**	**$15.53**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.14	.28	.23	.21	.21	.27
Net realized and unrealized gain (loss)	1.89	1.78	.03	1.51	2.20	(5.93)
Total from investment operations	2.03	2.06	.26	1.72	2.41	(5.66)
Less distributions from:						
Net investment income	(.31)	(.25)	(.23)	(.23)	(.28)	(.32)
Net realized gains on investment transactions	(.36)	—	—	—	—	—
Total distributions	(.67)	(.25)	(.23)	(.23)	(.28)	(.32)
Net asset value, end of period	**$16.37**	**$15.01**	**$13.20**	**$13.17**	**$11.68**	**$ 9.55**
Total Return (%)	13.60**	15.70	1.83	14.70	26.32[b]	(37.15)[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	534	668	632	699	678	584
Ratio of expenses before expense reductions (%)	.34*	.35	.33	.33	.34	.33
Ratio of expenses after expense reductions (%)	.34*	.35	.33	.33	.32	.28
Ratio of net investment income (loss) (%)	1.77*	1.95	1.74	1.74	2.10	2.07
Portfolio turnover rate (%)	2[c]**	4	6	5	8	6

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 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$15.00**	**$13.19**	**$13.17**	**$11.68**	**$ 9.54**	**$15.52**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.18	.25	.20	.18	.18	.24
Net realized and unrealized gain (loss)	1.83	1.78	.01	1.51	2.22	(5.94)
Total from investment operations	2.01	2.03	.21	1.69	2.40	(5.70)
Less distributions from:						
Net investment income	(.26)	(.22)	(.19)	(.20)	(.26)	(.28)
Net realized gains on investment transactions	(.36)	—	—	—	—	—
Total distributions	(.62)	(.22)	(.19)	(.20)	(.26)	(.28)
Net asset value, end of period	**$16.39**	**$15.00**	**$13.19**	**$13.17**	**$11.68**	**$ 9.54**
Total Return (%)	13.53**	15.42	1.50	14.52	26.03[b]	(37.34)[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	4	47	45	53	50	40
Ratio of expenses before expense reductions (%)	.58*	.60	.58	.58	.59	.58
Ratio of expenses after expense reductions (%)	.58*	.60	.58	.58	.57	.53
Ratio of net investment income (loss) (%)	2.19*	1.70	1.49	1.49	1.85	1.82
Portfolio turnover rate (%)	2[c]**	4	6	5	8	6

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 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$14.99**	**$13.18**	**$13.15**	**$11.67**	**$ 9.54**	**$15.51**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.11	.22	.18	.16	.17	.22
Net realized and unrealized gain (loss)	1.89	1.78	.02	1.50	2.21	(5.93)
Total from investment operations	2.00	2.00	.20	1.66	2.38	(5.71)
Less distributions from:						
Net investment income	(.24)	(.19)	(.17)	(.18)	(.25)	(.26)
Net realized gains on investment transactions	(.36)	—	—	—	—	—
Total distributions	(.60)	(.19)	(.17)	(.18)	(.25)	(.26)
Net asset value, end of period	**$16.39**	**$14.99**	**$13.18**	**$13.15**	**$11.67**	**$ 9.54**
Total Return (%)	13.44[b]**	15.26[b]	1.43	14.29	25.79[b]	(37.36)[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	19	19	18	20	21	19
Ratio of expenses before expense reductions (%)	.74*	.75	.73	.73	.74	.72
Ratio of expenses after expense reductions (%)	.73*	.74	.73	.73	.70	.63
Ratio of net investment income (loss) (%)	1.40*	1.55	1.34	1.34	1.72	1.72
Portfolio turnover rate (%)	2[c]**	4	6	5	8	6

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% of Class B and Class B2 shares average daily net assets. In addition, Class B2 shares are subject to record keeping fees equal to an annual rate up to 0.15% of 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 record keeping fees). Differences in class-level expenses may result in payment of different per share dividends by class. All shares have equal rights with respect to voting subject to class-specific arrangements.

The 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. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of June 30, 2013, the Fund had securities on loan with a gross value of $47,855,953. The value of the related collateral, $49,181,554, exceeded the value of the securities loaned at period end.

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, 2012 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 in-kind redemptions, 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 based upon the relative net assets or other appropriate measures.

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, 2013, 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, 2013 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $7,437,000 to $20,591,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2013 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Liability Derivative	Futures Contracts
Equity Contracts (a)	$ (21,623)

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, 2013 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)	$ 1,740,420

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)	$ 38,747

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, 2013, purchases and sales of investment securities (excluding short-term investments and in-kind redemptions) aggregated $16,491,002 and $34,167,991, 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, 2013, 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.

For the period from January 1, 2013 through April 30, 2014, 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	.38%
Class B	.63%
Class B2	.73%

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, 2013, the Administration Fee was $365,134, of which $46,406 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, 2013, the Distribution Service Fees were as follows:

Distribution Service Fees	**Total Aggregated**	**Unpaid at June 30, 2013**
Class B	$ 48,304	$ 881
Class B2	24,066	3,933
	$ 72,370	**$ 4,814**

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, 2013, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	**Total Aggregated**	**Waived**	**Unpaid at June 30, 2013**
Class A	$ 284	$ —	$ 93
Class B	50	—	21
Class B2	20	20	—
	$ 354	**$ 20**	**$ 114**

For the six months ended June 30, 2013, the Advisor reimbursed the Fund $809 of record keeping expenses for Class B2 shares.

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, 2013, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $11,584, all of which 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 Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and DWS Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and DWS Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that DWS Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in DWS Variable NAV Money Fund.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the six months ended June 30, 2013, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $4,389.

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, 2013.

F. Ownership of the Fund

At June 30, 2013, 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 48% and 17%, respectively. At June 30, 2013, three participating insurance companies were beneficial owners of record of 10% or more of the total outstanding Class B shares of the Fund, owning 44%, 30% and 23%. At June 30, 2013, one participating insurance company was a beneficial owner of record of 100% of the total outstanding Class B2 shares of the Fund.

G. In-Kind Redemptions

In certain circumstances, the Fund may distribute portfolio securities rather than cash as payments for a redemption of Fund shares (in-kind redemption). For financial reporting purposes, the Fund recognizes a gain on in-kind redemptions to the extent the value of the distributed securities exceeds their costs; the Fund recognizes a loss if cost exceeds value. Gains and losses realized on in-kind redemptions are not recognized for tax purposes and are reclassified from undistributed realized gain (loss) to paid-in capital. During the six months ended June 30, 2013, the Fund realized $75,739,517 of net gain attributable to in-kind redemptions.

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, Class B-2 shares 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, 2013 to June 30, 2013).

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, 2013

Actual Fund Return	Class A	Class B	Class B2
Beginning Account Value 1/1/13	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,136.00	$1,135.30	$1,134.40
Expenses Paid per $1,000*	$ 1.80	$ 3.07	$ 3.86

Hypothetical 5% Fund Return	Class A	Class B	Class B2
Beginning Account Value 1/1/13	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,023.11	$1,021.92	$1,021.17
Expenses Paid per $1,000*	$ 1.71	$ 2.91	$ 3.66

* 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 181 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	Class A	Class B	Class B2
DWS Equity 500 Index VIP	.34%	.58%	.73%

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.

For an analysis of the fees associated with an investment in the Fund or similar funds, please refer to http://apps.finra.org/fundanalyzer/1/fa.aspx.

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 17, 2012

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 2012, 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, 2010 and 2011.

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 103 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 "fallout" 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 considered how aggregated DWS Fund performance measures relative to appropriate peers had varied by asset class and over time.

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 Distributors, Inc.
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Chicago, IL 60606
(800) 621-1148

vit-equ500-3 (R-028371-2 8/13)

JUNE 30, 2013

SEMIANNUAL REPORT

DWS VARIABLE SERIES II

DWS Diversified International Equity VIP

(On July 12, 2013, DWS Diversified International Equity VIP
was renamed DWS Global 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 the Deutsche Asset & Wealth Management division of Deutsche Bank AG.

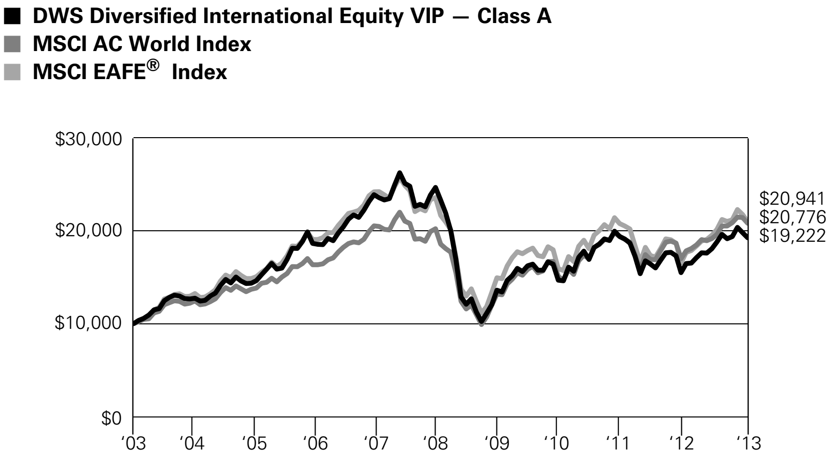
Performance Summary

June 30, 2013 (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, 2013 is 1.06% 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



Yearly periods ended June 30

The MSCI AC World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The index consists of 45 country indices comprising 24 developed and 21 emerging market country indices. On July 12, 2013 the MSCI AC World Index replaced the MSCI EAFE Index as the fund's benchmark index because the Advisor believes that it more accurately reflects the fund's investment strategy.

The MSCI EAFE Index is an unmanaged index that tracks international stock performance in the 22 developed markets of Europe, Australasia and the Far East. Returns reflect reinvestment of dividends net of withholding taxes. 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	$10,245	$11,684	$13,161	$8,262	$19,222
	Average annual total return	2.45%	16.84%	9.59%	–3.75%	6.75%
MSCI AC World Index	Growth of $10,000	$10,605	$11,657	$14,186	$11,205	$20,776
	Average annual total return	6.05%	16.57%	12.36%	2.30%	7.59%
MSCI EAFE Index	Growth of $10,000	$10,410	$11,862	$13,325	$9,688	$20,941
	Average annual total return	4.10%	18.62%	10.04%	–0.63%	7.67%

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)	**6/30/13**	**12/31/12**
Common Stocks	91%	88%
Exchange-Traded Funds	8%	10%
Cash Equivalents	1%	2%
Preferred Stocks	0%	0%
	100%	100%

Sector Diversification (As a % of Common and Preferred Stocks)	**6/30/13**	**12/31/12**
Telecommunication Services	15%	15%
Financials	12%	13%
Health Care	12%	12%
Consumer Staples	12%	12%
Materials	9%	9%
Utilities	9%	8%
Industrials	9%	8%
Information Technology	8%	12%
Consumer Discretionary	8%	7%
Energy	6%	4%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/13**	**12/31/12**
Continental Europe	43%	54%
Japan	19%	12%
Emerging Markets	9%	10%
Australia	9%	4%
Asia (excluding Japan)	8%	6%
Canada	6%	7%
United Kingdom	6%	7%
	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

Effective July 12, 2013, QS Investors no longer serves as subadvisor to the fund and day-to-day portfolio management of the fund transitioned to Deutsche Investment Management Americas Inc.

The new portfolio management team for the fund is as follows:

Nils E. Ernst, PhD
Martin Berberich, CFA
Sebastian P. Werner, PhD
Portfolio Managers, Deutsche Investment Management Americas Inc.

	Shares	Value ($)
Common Stocks 89.7%		
Australia 8.5%		
AGL Energy Ltd.	26,092	344,212
ALS Ltd.	6,039	52,452
Amcor Ltd.	5,214	48,167
APA Group	41,176	224,685
Asciano Ltd.	18,887	86,234
Aurizon Holdings Ltd.	33,963	128,585
Australia & New Zealand Banking Group Ltd.	4,297	111,532
BHP Billiton Ltd.	9,023	260,000
Brambles Ltd.	23,983	204,106
Caltex Australia Ltd.	1,905	31,291
Coca-Cola Amatil Ltd.	4,702	54,449
Cochlear Ltd.	1,084	60,831
Commonwealth Bank of Australia	2,423	152,301
Crown Ltd.	18,867	207,140
CSL Ltd.	8,443	475,491
Echo Entertainment Group Ltd.	38,367	107,139
Flight Centre Ltd.	2,840	101,427
Harvey Norman Holdings Ltd.	27,391	63,431
Leighton Holdings Ltd.	3,250	45,479
National Australia Bank Ltd.	3,728	100,431
Newcrest Mining Ltd.	1,231	11,056
Origin Energy Ltd.	10,739	122,893
QBE Insurance Group Ltd.	2,452	33,841
Ramsay Health Care Ltd.	2,434	79,539
Rio Tinto Ltd.	1,738	82,551
Santos Ltd.	10,058	114,908
Seek Ltd.	5,723	47,201
Sonic Healthcare Ltd.	6,672	90,371
SP AusNet	77,545	82,964
TABCORP Holdings Ltd.	40,735	113,053
Tatts Group Ltd.	68,369	197,610
Telstra Corp., Ltd.	151,878	661,205
Toll Holdings Ltd.	15,282	73,975
Transurban Group	21,758	134,217
Treasury Wine Estates Ltd.	5,945	31,559
Wesfarmers Ltd.	7,527	271,483
Westfield Group (REIT) (Units)	2,462	25,682
Westpac Banking Corp.	4,868	127,441
Woodside Petroleum Ltd.	6,007	191,187
Woolworths Ltd.	9,063	270,904
WorleyParsons Ltd.	2,453	43,374
(Cost $5,120,196)		**5,666,397**
Austria 0.5%		
Erste Group Bank AG	6,505	173,199
Immofinanz AG*	21,199	79,160
Raiffeisen Bank International AG	1,218	35,489
Vienna Insurance Group AG Wiener Versicherung Gruppe	1,323	61,260
(Cost $278,022)		**349,108**
Belgium 1.5%		
Ageas	3,963	138,503
Anheuser-Busch InBev NV	3,560	315,826
Delhaize Group	593	36,450
Groupe Bruxelles Lambert SA	1,509	113,949
KBC Groep NV	3,926	145,212
Solvay SA	1,060	138,670
Umicore SA	2,235	92,843
(Cost $558,526)		**981,453**
Bermuda 0.2%		
Seadrill Ltd. (Cost $58,313)	3,256	**131,333**
Canada 5.8%		
Agrium, Inc.	400	34,679
Alimentation Couche-Tard, Inc. "B"	1,500	88,999
Atco Ltd. "I"	1,800	74,263
Bank of Montreal	800	46,401
Bank of Nova Scotia	1,100	58,802
Barrick Gold Corp.	3,500	55,244
BCE, Inc.	3,000	123,001
Bell Aliant, Inc.	1,400	37,619
Bombardier, Inc. "B"	6,500	28,925
Brookfield Asset Management, Inc. "A"	1,000	35,942
Canadian Imperial Bank of Commerce	500	35,485
Canadian National Railway Co.	1,300	126,576
Canadian Natural Resources Ltd.	1,400	39,469
Canadian Pacific Railway Ltd.	500	60,630
Canadian Tire Corp., Ltd. "A"	500	37,644
Canadian Utilities Ltd. "A"	3,000	105,287
Cenovus Energy, Inc.	2,000	57,050
CGI Group, Inc. "A"*	4,900	143,501
Empire Co., Ltd. "A"	500	38,233
Enbridge, Inc.	1,400	58,851
First Quantum Minerals Ltd.	2,300	34,116
Fortis, Inc.	4,600	140,795
George Weston Ltd.	700	55,730
Gildan Activewear, Inc.	800	32,443
Goldcorp, Inc.	2,900	72,024
Loblaw Companies Ltd.	1,000	45,212
Magna International, Inc. "A"	1,106	78,725
Manulife Financial Corp.	2,600	41,607
Metro, Inc. "A"	900	60,314
National Bank of Canada	400	28,540
Open Text Corp.	1,600	109,385
Potash Corp. of Saskatchewan, Inc.	2,800	106,814
Research In Motion Ltd.*	10,800	113,781
Rogers Communications, Inc. "B"	4,100	160,616
Royal Bank of Canada	1,300	75,748
Saputo, Inc.	1,300	59,753
Shaw Communications, Inc. "B"	2,400	57,598
Shoppers Drug Mart Corp.	2,000	92,270
Silver Wheaton Corp.	1,100	21,557
SNC-Lavalin Group, Inc.	600	25,347
Sun Life Financial, Inc.	1,000	29,619
Suncor Energy, Inc.	2,020	59,542
Teck Resources Ltd. "B"	1,200	25,638
Telus Corp.	2,300	67,139
Thomson Reuters Corp. (a)	800	26,106
Thomson Reuters Corp. (a)	1,158	37,716
Tim Hortons, Inc.	1,000	54,084
Toronto-Dominion Bank	900	72,286
TransAlta Corp.	6,800	93,171
TransCanada Corp.	1,400	60,276
Valeant Pharmaceuticals International, Inc.*	7,400	638,045

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

	Shares	Value ($)
Yamana Gold, Inc.	1,100	10,491
(Cost $2,833,489)		**3,873,089**
Denmark 2.7%		
A P Moller-Maersk AS "A"	7	47,150
A P Moller-Maersk AS "B"	18	128,757
Carlsberg AS "B"	4,293	383,177
Coloplast AS "B"	1,265	70,803
Danske Bank AS*	16,394	279,094
DSV AS	2,622	63,737
Novo Nordisk AS "B"	4,250	661,672
Novozymes AS "B"	2,348	75,107
Tryg AS	621	51,081
William Demant Holding AS*	291	24,061
(Cost $1,394,141)		**1,784,639**
Finland 2.1%		
Kone Oyj "B"	1,396	110,663
Metso Corp.	1,104	37,407
Nokia Oyj*	110,035	409,863
Pohjola Bank PLC "A"	3,258	47,924
Sampo Oyj "A"	8,693	337,359
Stora Enso Oyj "R"	23,027	153,443
UPM-Kymmene Oyj	20,179	196,809
Wartsila Oyj	1,559	67,539
(Cost $868,260)		**1,361,007**
France 5.4%		
Air Liquide SA	2,121	260,929
Arkema	421	38,440
AtoS	697	51,731
AXA SA	4,348	85,431
BNP Paribas SA	2,000	109,274
Cap Gemini	2,014	97,914
Carrefour SA	1,290	35,243
Cie de St-Gobain	755	30,390
Cie Generale des Etablissements Michelin	539	47,953
DANONE SA	1,275	95,626
Dassault Systemes SA	830	101,533
Electricite de France	2,181	50,608
Essilor International SA	1,351	143,654
European Aeronautic Defence & Space Co.	971	51,633
France Telecom SA	16,498	155,364
GDF Suez	12,916	251,840
Iliad SA	261	56,312
L'Oreal SA	574	93,850
Lafarge SA	1,520	92,973
LVMH Moet Hennessy Louis Vuitton SA	420	67,635
Pernod-Ricard SA	585	64,840
Renault SA	494	33,001
Sanofi	7,030	724,491
Schneider Electric SA	894	64,453
Societe Generale	1,549	52,745
Suez Environnement Co.	1,869	24,064
Technip SA	427	43,157
Total SA	6,625	323,064
Unibail-Rodamco SE (REIT)	265	61,446
Veolia Environnement	4,218	47,784
Vinci SA	944	47,095
Vivendi	10,503	197,937
(Cost $3,045,629)		**3,602,410**

	Shares	Value ($)
Germany 3.6%		
Adidas AG	324	35,019
Allianz SE (Registered)	1,642	239,798
BASF SE	1,618	144,509
Bayer AG (Registered)	1,611	171,743
Bayerische Motoren Werke (BMW) AG	448	39,140
Beiersdorf AG	803	70,017
Commerzbank AG*	1,761	15,348
Continental AG	107	14,257
Daimler AG (Registered)	1,209	73,074
Deutsche Boerse AG	688	45,292
Deutsche Post AG (Registered)	2,615	64,985
Deutsche Telekom AG (Registered)	31,631	368,931
E.ON AG	14,726	241,631
Fresenius Medical Care AG & Co. KGaA	504	35,707
Fresenius SE & Co. KGaA	342	42,154
GEA Group AG	565	19,980
Henkel AG & Co. KGaA	790	61,917
Infineon Technologies AG	4,778	39,976
Linde AG	332	61,820
Merck KGaA	83	12,623
Metro AG	1,019	32,216
Muenchener Rueckversicherungs-Gesellschaft AG (Registered)	388	71,247
RWE AG	3,136	100,064
SAP AG	2,934	214,845
Siemens AG (Registered)	1,778	179,654
(Cost $1,771,234)		**2,395,947**
Hong Kong 3.0%		
AIA Group Ltd.	23,000	96,659
Cathay Pacific Airways Ltd.	15,000	26,188
Cheung Kong (Holdings) Ltd.	5,000	67,574
Cheung Kong Infrastructure Holdings Ltd.	14,000	93,451
CLP Holdings Ltd.	35,000	282,589
Galaxy Entertainment Group Ltd.*	12,000	57,909
Hang Lung Properties Ltd.	5,000	17,359
Hang Seng Bank Ltd.	2,200	32,398
Hong Kong & China Gas Co., Ltd.	121,394	295,830
Hong Kong Exchanges & Clearing Ltd.	3,500	52,442
Hutchison Whampoa Ltd.	31,000	323,980
Li & Fung Ltd.	36,000	49,000
MTR Corp., Ltd.	17,500	64,066
Noble Group Ltd.	51,363	39,304
NWS Holdings Ltd.	30,000	45,638
Orient Overseas International Ltd.	5,000	32,027
Power Assets Holdings Ltd.	28,500	245,443
SJM Holdings Ltd.	12,000	28,907
Sun Hung Kai Properties Ltd.	5,000	64,285
Swire Pacific Ltd. "A"	2,000	23,953
Wharf Holdings Ltd.	3,000	24,978
(Cost $1,549,024)		**1,963,980**
Ireland 1.2%		
CRH PLC (a)	20,956	424,688
CRH PLC (a)	12,486	252,696
Experian PLC	1,159	20,102
Shire PLC	2,843	90,189
(Cost $634,166)		**787,675**

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

	Shares	Value ($)
Italy 3.0%		
Assicurazioni Generali SpA	6,464	112,801
Atlantia SpA	5,462	88,722
Enel Green Power SpA	16,188	33,582
Enel SpA (b)	58,620	183,760
Eni SpA	12,656	260,013
Fiat Industrial SpA	11,866	132,183
Fiat SpA*	19,601	135,846
Finmeccanica SpA*	3,437	17,121
Intesa Sanpaolo	70,157	112,260
Luxottica Group SpA	3,208	161,502
Pirelli & C. SpA	5,969	68,803
Prysmian SpA	3,776	70,206
Saipem SpA	1,195	19,335
Snam SpA	16,191	73,724
Telecom Italia SpA	369,240	256,458
Telecom Italia SpA (RSP)	230,121	127,160
Terna — Rete Elettrica Nationale SpA	14,939	62,070
UniCredit SpA	21,088	98,611
(Cost $1,957,857)		**2,014,157**
Japan 18.8%		
AEON Co., Ltd.	5,200	68,270
Ajinomoto Co., Inc.	6,000	88,089
Alfresa Holdings Corp.	500	26,771
Asahi Group Holdings Ltd.	3,400	84,542
Asahi Kasei Corp.	15,000	99,226
Astellas Pharma, Inc.	4,800	261,394
Bridgestone Corp.	2,000	68,170
Canon, Inc.	5,100	167,503
Central Japan Railway Co.	300	36,789
Chubu Electric Power Co., Inc.	13,200	187,141
Chugai Pharmaceutical Co., Ltd.	2,300	47,683
Chugoku Electric Power Co., Inc.	6,300	99,204
Cosmo Oil Co., Ltd.*	28,000	51,667
Dai-ichi Life Insurance Co., Ltd.	16	23,158
Daiichi Sankyo Co., Ltd.	5,800	96,852
Dainippon Sumitomo Pharma Co., Ltd.	1,800	23,796
Daiwa House Industry Co., Ltd.	2,000	37,331
Daiwa Securities Group, Inc.	3,000	25,202
Denso Corp.	800	37,521
East Japan Railway Co.	1,300	101,069
Eisai Co., Ltd.	2,100	85,653
Electric Power Development Co., Ltd.	2,900	90,501
FANUC Corp.	600	87,004
Fast Retailing Co., Ltd.	100	33,732
Fuji Heavy Industries Ltd.	2,000	49,316
FUJIFILM Holdings Corp.	1,200	26,441
Fujitsu Ltd.	11,000	45,478
Hisamitsu Pharmaceutical Co., Inc.	700	35,660
Hitachi Ltd.	22,000	141,322
Hokkaido Electric Power Co., Inc.*	4,400	59,736
Hokuriku Electric Power Co.	2,800	44,074
Honda Motor Co., Ltd.	4,600	170,938
HOYA Corp.	1,400	28,726
Idemitsu Kosan Co., Ltd.	1,200	92,323
INPEX Corp.	84	351,168
ITOCHU Corp.	5,800	66,969
Japan Petroleum Exploration Co., Ltd.	1,600	64,938
Japan Tobacco, Inc.	10,600	374,641
JFE Holdings, Inc.	3,900	85,620
JSR Corp.	2,900	58,663
JX Holdings, Inc.	87,920	426,438
Kansai Electric Power Co., Inc.*	15,900	218,359
Kao Corp.	4,500	153,141
KDDI Corp.	6,800	353,813
Keyence Corp.	310	98,937
Kikkoman Corp.	2,000	33,276
Kirin Holdings Co., Ltd.	10,000	157,056
Kobe Steel Ltd.*	23,000	28,528
Komatsu Ltd.	3,300	76,306
Kubota Corp.	4,000	58,071
Kuraray Co., Ltd.	5,600	78,607
Kyocera Corp.	900	91,615
Kyowa Hakko Kirin Co., Ltd.	3,000	33,942
Kyushu Electric Power Co., Inc.*	9,500	143,309
Lawson, Inc.	500	38,165
Marubeni Corp.	9,000	60,171
MEIJI Holdings Co., Ltd.	500	24,024
Miraca Holdings, Inc.	500	23,036
Mitsubishi Chemical Holdings Corp.	6,500	30,544
Mitsubishi Corp.	5,200	89,088
Mitsubishi Electric Corp.	7,000	65,579
Mitsubishi Estate Co., Ltd.	3,000	79,899
Mitsubishi Heavy Industries Ltd.	10,000	55,563
Mitsubishi Materials Corp.	11,000	38,712
Mitsubishi Tanabe Pharma Corp.	2,200	28,564
Mitsubishi UFJ Financial Group, Inc.	30,600	189,887
Mitsui & Co., Ltd.	6,600	82,925
Mitsui Fudosan Co., Ltd.	2,000	58,834
Mizuho Financial Group, Inc.	51,100	106,358
MS&AD Insurance Group Holdings, Inc.	1,300	33,062
Murata Manufacturing Co., Ltd.	1,000	76,133
Nintendo Co., Ltd.	500	58,989
Nippon Meat Packers, Inc.	2,000	30,594
Nippon Steel & Sumitomo Metal	57,000	154,046
Nippon Telegraph & Telephone Corp.	5,409	282,305
Nissan Motor Co., Ltd.	7,500	76,011
Nisshin Seifun Group, Inc.	3,000	35,938
Nissin Foods Holdings Co., Ltd.	700	28,339
Nitto Denko Corp.	1,600	102,937
Nomura Holdings, Inc.	8,800	65,211
NTT DoCoMo, Inc.	187	290,569
Olympus Corp.*	1,900	57,768
OMRON Corp.	1,600	47,744
Ono Pharmaceutical Co., Ltd.	700	47,503
ORIX Corp.	2,000	27,331
Osaka Gas Co., Ltd.	48,000	203,163
Otsuka Holdings KK	4,600	151,903
Panasonic Corp.*	3,100	24,915
Resona Holdings, Inc.	6,900	33,607
Ricoh Co., Ltd.	4,000	47,599
Santen Pharmaceutical Co., Ltd.	700	30,195
Seven & I Holdings Co., Ltd.	7,700	281,479
Shikoku Electric Power Co., Inc.*	4,200	76,069
Shin-Etsu Chemical Co., Ltd.	3,300	218,965
Shionogi & Co., Ltd.	3,900	81,406
Shiseido Co., Ltd.	3,500	52,063
Showa Shell Sekiyu KK	9,000	74,055
SMC Corp.	300	60,419

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

	Shares	Value ($)
SOFTBANK Corp.	12,100	706,500
Sony Corp.	1,300	27,506
Sumitomo Chemical Co., Ltd.	6,000	18,878
Sumitomo Corp.	5,100	63,616
Sumitomo Metal Mining Co., Ltd.	5,000	55,765
Sumitomo Mitsui Financial Group, Inc.	3,200	146,828
Sumitomo Mitsui Trust Holdings, Inc.	7,410	34,597
Sumitomo Realty & Development Co., Ltd.	1,000	39,883
Suzuken Co., Ltd.	900	30,310
Sysmex Corp.	1,000	65,444
Takeda Pharmaceutical Co., Ltd.	8,300	375,620
Terumo Corp.	1,400	69,670
Toho Gas Co., Ltd.	7,000	36,209
Tohoku Electric Power Co., Inc.*	10,000	125,255
Tokio Marine Holdings, Inc.	1,400	44,400
Tokyo Electric Power Co., Inc.*	31,100	160,649
Tokyo Electron Ltd.	1,000	50,622
Tokyo Gas Co., Ltd.	57,000	315,469
TonenGeneral Sekiyu KK	15,000	145,351
Toray Industries, Inc.	15,000	97,108
Toshiba Corp.	21,000	101,015
Toyo Suisan Kaisha Ltd.	1,000	33,330
Toyota Motor Corp.	6,000	362,288
Unicharm Corp.	900	50,911
Yahoo Japan Corp.	90	44,473
Yakult Honsha Co., Ltd.	700	29,010
(Cost $10,768,602)		**12,528,053**
Luxembourg 0.5%		
ArcelorMittal	7,780	86,723
Millicom International Cellular SA (SDR)	2,289	165,034
Tenaris SA	1,718	34,567
(Cost $296,693)		**286,324**
Macau 0.1%		
Sands China Ltd.	11,200	52,599
Wynn Macau Ltd.	9,200	24,775
(Cost $29,914)		**77,374**
Netherlands 5.1%		
AEGON NV	13,027	86,967
Akzo Nobel NV	2,534	142,338
ASML Holding NV	6,883	539,999
Corio NV (REIT)	729	28,905
DE Master Blenders 1753 NV*	1,545	24,735
Gemalto NV	1,607	145,502
Heineken Holding NV	499	27,952
Heineken NV	780	49,587
ING Groep NV (CVA)*	27,123	247,842
Koninklijke (Royal) KPN NV	223,027	461,262
Koninklijke Ahold NV	4,171	61,965
Koninklijke DSM NV	1,774	115,417
Koninklijke Philips NV	5,110	139,189
Koninklijke Vopak NV	374	22,052
Randstad Holding NV	918	37,485
Reed Elsevier NV	15,755	261,326
Royal Dutch Shell PLC "A"	3,196	101,988
Royal Dutch Shell PLC "B"	2,331	77,088
Unilever NV (CVA)	4,999	196,095
Wolters Kluwer NV	7,591	160,084

	Shares	Value ($)
Ziggo NV	11,865	473,661
(Cost $2,716,360)		**3,401,439**
Norway 2.0%		
DnB ASA	20,390	294,569
Gjensidige Forsikring ASA	5,213	76,568
Norsk Hydro ASA	39,308	156,558
Statoil ASA	8,217	169,397
Telenor ASA	17,773	352,324
Yara International ASA	7,548	300,972
(Cost $880,800)		**1,350,388**
Singapore 4.1%		
CapitaLand Ltd.	20,000	48,310
ComfortDelGro Corp., Ltd.	29,000	41,730
DBS Group Holdings Ltd.	8,000	97,385
Genting Singapore PLC	175,000	181,500
Global Logistic Properties Ltd.	17,000	36,674
Golden Agri-Resources Ltd.	381,000	167,372
Hutchison Port Holdings Trust (Units)	63,000	46,302
Jardine Cycle & Carriage Ltd.	3,000	100,607
Keppel Corp., Ltd.	15,400	125,925
Olam International Ltd. (b)	76,000	98,162
Oversea-Chinese Banking Corp., Ltd.	14,000	109,923
SembCorp Industries Ltd.	16,000	62,178
SembCorp Marine Ltd.	8,000	27,117
Singapore Airlines Ltd.	6,000	47,998
Singapore Exchange Ltd.	7,000	38,651
Singapore Press Holdings Ltd.	54,000	177,261
Singapore Technologies Engineering Ltd.	15,000	49,343
Singapore Telecommunications Ltd.	127,000	376,100
Singapore Telecommunications Ltd.	150,000	443,682
StarHub Ltd.	25,000	82,439
United Overseas Bank Ltd.	7,000	109,191
Wilmar International Ltd.	94,000	232,594
(Cost $2,172,351)		**2,700,444**
Spain 3.7%		
Abertis Infraestructuras SA	7,238	125,713
ACS, Actividades de Construccion y Servicios SA	2,511	66,205
Amadeus IT Holding SA "A"	12,463	398,122
Banco Bilbao Vizcaya Argentaria SA	12,973	108,029
Banco Santander SA	26,579	168,269
Enagas SA	2,258	55,777
Ferrovial SA	7,677	122,648
Gas Natural SDG SA	3,160	63,449
Iberdrola SA	38,478	201,948
Inditex SA	2,822	348,101
Red Electrica Corporacion SA	963	52,819
Repsol SA	17,632	371,703
Telefonica SA*	27,672	356,059
Zardoya Otis SA	3,050	43,083
(Cost $1,933,844)		**2,481,925**
Sweden 5.4%		
Assa Abloy AB "B"	1,207	47,053
Atlas Copco AB "A"	2,084	50,050
Electrolux AB "B"	1,087	27,487
Elekta AB "B"	12,323	187,420

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

	Shares	Value ($)
Getinge AB "B"	6,438	195,173
Hennes & Mauritz AB "B"	5,804	190,047
Hexagon AB "B"	5,262	140,337
Husqvarna AB "B"	4,852	25,528
Investor AB "B"	3,056	81,771
Nordea Bank AB	10,270	114,241
Sandvik AB	3,095	36,855
Skandinaviska Enskilda Banken AB "A"	4,035	38,389
Skanska AB "B"	1,724	28,488
SKF AB "B"	1,279	29,807
Svenska Cellulosa AB "B"	22,492	563,133
Svenska Handelsbanken AB "A"	1,999	79,930
Swedbank AB "A"	2,795	63,790
Swedish Match AB	8,091	286,043
Tele2 AB "B"	12,231	143,107
Telefonaktiebolaget LM Ericsson "B"	62,244	705,681
TeliaSonera AB	81,015	526,388
Volvo AB "B"	2,677	35,680
(Cost $3,070,182)		**3,596,398**

Switzerland 5.9%

	Shares	Value ($)
ABB Ltd. (Registered)*	6,008	129,706
Adecco SA (Registered)*	407	23,103
Aryzta AG*	598	33,532
Compagnie Financiere Richemont SA "A"	1,918	168,250
Credit Suisse Group AG (Registered)	3,051	80,890
Geberit AG (Registered)	147	36,394
Givaudan SA (Registered)*	42	54,235
Glencore Xstrata PLC	25,800	107,327
Holcim Ltd. (Registered)*	980	68,387
Nestle SA (Registered)	12,515	818,562
Novartis AG (Registered)	5,844	414,161
Roche Holding AG (Genusschein)	1,812	448,985
SGS SA (Registered)	29	62,152
Sika AG (Bearer)	9	23,237
STMicroelectronics NV	8,506	76,068
Swatch Group AG (Bearer)	87	47,668
Swiss Re AG.*	723	53,557
Swisscom AG (Registered)	2,001	874,439
Syngenta AG (Registered)	395	154,045
UBS AG (Registered)*	5,885	99,976
Wolseley PLC	878	40,636
Zurich Insurance Group AG*	398	103,145
(Cost $2,158,091)		**3,918,455**

United Kingdom 6.2%

	Shares	Value ($)
Anglo American PLC	4,058	78,415
ARM Holdings PLC	22,472	271,907
AstraZeneca PLC	5,312	251,279
BAE Systems PLC	8,559	50,025
Barclays PLC	8,467	36,296
BG Group PLC	3,267	55,758
BHP Billiton PLC	5,678	145,836
BP PLC	14,756	102,365
British American Tobacco PLC	1,714	88,020
British Sky Broadcasting Group PLC	1,048	12,646
BT Group PLC	34,124	159,688
Capita PLC	1,652	24,340
Centrica PLC	18,856	103,484
Diageo PLC	2,700	77,445
GlaxoSmithKline PLC	20,289	507,566
HSBC Holdings PLC	12,924	133,933
Imperial Tobacco Group PLC	836	29,047
Inmarsat PLC	3,673	37,695
International Consolidated Airlines Group SA*	16,625	66,425
Kingfisher PLC	2,564	13,422
Lloyds Banking Group PLC*	35,330	34,060
National Grid PLC	14,501	164,028
Pearson PLC	2,051	36,417
Prudential PLC	3,097	50,914
Reckitt Benckiser Group PLC	814	57,704
Reed Elsevier PLC	2,666	30,379
Rio Tinto PLC	3,426	140,420
Rolls-Royce Holdings PLC*	5,596	96,824
SABMiller PLC	790	38,014
Severn Trent PLC	719	18,132
Smith & Nephew PLC	4,043	45,058
Smiths Group PLC	1,710	34,119
SSE PLC	3,756	86,713
Standard Chartered PLC	1,687	36,422
Subsea 7 SA*	3,151	55,136
Tesco PLC	10,251	51,514
The Sage Group PLC	24,217	125,597
Unilever PLC	1,529	62,095
United Utilities Group PLC	2,852	29,623
Vodafone Group PLC	230,436	661,286
WPP PLC	2,440	41,686
(Cost $2,823,925)		**4,141,733**

United States 0.4%

	Shares	Value ($)
Catamaran Corp.* (Cost $259,598)	5,300	**257,970**
Total Common Stocks (Cost $47,179,217)		**59,651,698**

Preferred Stocks 0.2%

Germany

	Shares	Value ($)
Henkel AG & Co. KGaA	1,058	99,279
Volkswagen AG	123	24,832
Total Preferred Stocks (Cost $37,424)		**124,111**

Exchange-Traded Funds 8.4%

Emerging Markets

	Shares	Value ($)
iShares MSCI Emerging Markets Index Fund (b)	73,000	2,815,610
Vanguard FTSE Emerging Markets Fund	71,400	2,768,892
Total Exchange-Traded Funds (Cost $4,637,577)		**5,584,502**

Securities Lending Collateral 4.6%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.10% (c) (d) (Cost $3,080,040)	3,080,040	**3,080,040**

Cash Equivalents 0.4%

	Shares	Value ($)
Central Cash Management Fund, 0.07% (c) (Cost $276,960)	276,960	**276,960**

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

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $55,211,218)†	103.3	**68,717,311**
Other Assets and Liabilities, Net	(3.3)	**(2,172,093)**
Net Assets	100.0	**66,545,218**

* Non-income producing security.

† The cost for federal income tax purposes was $55,497,976. At June 30, 2013, net unrealized appreciation for all securities based on tax cost was $13,219,335. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $15,795,680 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,576,345.

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

(b) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of securities loaned at June 30, 2013 amounted to $3,013,676, which is 4.5% of net assets.

(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 (Certificate of Stock)

FTSE: Financial Times and the London Stock Exchange

MSCI: Morgan Stanley Capital International

REIT: Real Estate Investment Trust

RSP: Risparmio (Convertible Savings Shares)

SDR: Swedish Depositary Receipt

At June 30, 2013, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
Euro Stoxx 50 Index	EUR	9/20/2013	18	608,703	(22,000)
FTSE 100 Index	GBP	9/20/2013	1	93,713	(2,512)
Nikkei 225 Index	USD	9/12/2013	4	276,800	3,784
SPI 200 Index	AUD	9/19/2013	2	218,074	(2,200)
Total net unrealized depreciation					**(22,928)**

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, 2013 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 Preferred Stocks (e)				
Australia	$ —	$ 5,666,397	$ —	$ 5,666,397
Austria	—	349,108	—	349,108
Belgium	—	981,453	—	981,453
Bermuda	—	131,333	—	131,333
Canada	3,873,089	—	—	3,873,089
Denmark	—	1,784,639	—	1,784,639
Finland	—	1,361,007	—	1,361,007
France	—	3,602,410	—	3,602,410
Germany	—	2,520,058	—	2,520,058
Hong Kong	—	1,963,980	—	1,963,980
Ireland		787,675	—	787,675
Italy	—	2,014,157	—	2,014,157
Japan	—	12,528,053	—	12,528,053
Luxembourg	—	286,324	—	286,324
Macau	—	77,374	—	77,374
Netherlands	—	3,401,439	—	3,401,439
Norway	—	1,350,388	—	1,350,388
Singapore	—	2,700,444	—	2,700,444
Spain	—	2,481,925	—	2,481,925
Sweden	—	3,596,398	—	3,596,398
Switzerland	—	3,918,455	—	3,918,455
United Kingdom	—	4,141,733	—	4,141,733
United States	257,970	—	—	257,970
Exchange-Traded Funds	5,584,502	—	—	5,584,502
Short-Term Investments (e)	3,357,000	—	—	3,357,000
Derivatives (f)				
Futures Contracts	3,784	—	—	3,784
Total	**$ 13,076,345**	**$ 55,644,750**	**$ —**	**$ 68,721,095**

Liabilities				
Derivatives (f)				
Futures Contracts	$ (26,712)	$ —	$ —	$ (26,712)
Total	**$ (26,712)**	**$ —**	**$ —**	**$ (26,712)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2013.

(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, 2013 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $51,854,218) — including $3,013,676 of securities loaned	$	65,360,311
Investment in Daily Assets Fund Institutional (cost $3,080,040)*		3,080,040
Investment in Central Cash Management Fund (cost $276,960)		276,960
Total investments in securities, at value (cost $55,211,218)		68,717,311
Foreign currency, at value (cost $725,372)		708,545
Deposits with broker for futures contracts		144,547
Receivable for investments sold		9,785
Receivable for Fund shares sold		401
Dividends receivable		131,550
Interest receivable		4,104
Foreign taxes recoverable		63,956
Other assets		432
Total assets		69,780,631

Liabilities		
Payable upon return of securities loaned		3,080,040
Payable for Fund shares redeemed		27,328
Payable for variation margin on futures contracts		22,928
Accrued management fee		33,360
Accrued Trustees' fees		228
Other accrued expenses and payables		71,529
Total liabilities		3,235,413
Net assets, at value	**$**	**66,545,218**

Net Assets Consist of		
Undistributed net investment income		980,681
Net unrealized appreciation (depreciation) on:		
Investments		13,506,093
Futures		(22,928)
Foreign currency		(21,353)
Accumulated net realized gain (loss)		(62,254,077)
Paid-in capital		114,356,802
Net assets, at value	**$**	**66,545,218**
Class A		
Net Asset Value, offering and redemption price per share ($66,545,218 ÷ 8,359,079 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**7.96**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2013 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $156,353)	$	1,408,018
Interest		290
Income distributions — Central Cash Management Fund		430
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		56,743
Total income		1,465,481
Expenses:		
Management fee		222,173
Administration fee		34,180
Services to shareholders		569
Custodian fee		18,685
Legal fees		8,272
Audit and tax fees		28,930
Reports to shareholders		14,353
Trustees' fees and expenses		2,250
Other		15,172
Total expenses before expense reductions		344,584
Expense reductions		(5,951)
Total expenses after expense reductions		338,633
Net investment income		**1,126,848**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		2,347,497
Futures		78,186
Foreign currency		1,032
		2,426,715
Change in net unrealized appreciation (depreciation) on:		
Investments		(1,863,820)
Futures		(27,008)
Foreign currency		(21,381)
		(1,912,209)
Net gain (loss)		**514,506**
Net increase (decrease) in net assets resulting from operations	**$**	**1,641,354**

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, 2013 (Unaudited)	Year Ended December 31, 2012
Operations:		
Net investment income	$ 1,126,848	$ 1,605,589
Net realized gain (loss)	2,426,715	337,693
Change in net unrealized appreciation (depreciation)	(1,912,209)	8,562,569
Net increase (decrease) in net assets resulting from operations	1,641,354	10,505,851
Distributions to shareholders from:		
Net investment income:		
Class A	(1,676,904)	(1,885,705)
Total distributions	(1,676,904)	(1,885,705)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,211,362	2,442,886
Reinvestment of distributions	1,676,904	1,885,705
Payments for shares redeemed	(4,294,300)	(10,767,707)
Net increase (decrease) in net assets from Class A share transactions	(406,034)	(6,439,116)
Increase (decrease) in net assets	(441,584)	2,181,030
Net assets at beginning of period	66,986,802	64,805,772
Net assets at end of period (including undistributed net investment income of $980,681 and $1,530,737, respectively)	**$ 66,545,218**	**$ 66,986,802**

Other Information		
Class A		
Shares outstanding at beginning of period	8,411,945	9,288,789
Shares sold	267,221	334,743
Shares issued to shareholders in reinvestment of distributions	202,769	258,316
Shares redeemed	(522,856)	(1,469,903)
Net increase (decrease) in Class A shares	(52,866)	(876,844)
Shares outstanding at end of period	**8,359,079**	**8,411,945**

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

Financial Highlights

Class A	Six Months Ended 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$ 7.96**	**$ 6.98**	**$ 8.08**	**$ 7.45**	**$ 6.22**	**$16.76**
Income (loss) from investment operations:						
Net investment income[a]	.13	.18	.19	.14	.12	.33[c]
Net realized and unrealized gain (loss)	.07	1.01	(1.14)	.66	1.51	(6.67)
Total from investment operations	.20	1.19	(.95)	.80	1.63	(6.34)
Less distributions from:						
Net investment income	(.20)	(.21)	(.15)	(.17)	(.40)	(.13)
Net realized gains	—	—	—	—	—	(4.07)
Total distributions	(.20)	(.21)	(.15)	(.17)	(.40)	(4.20)
Net asset value, end of period	**$ 7.96**	**$ 7.96**	**$ 6.98**	**$ 8.08**	**$ 7.45**	**$ 6.22**
Total Return (%)	2.45[b]**	17.34	(12.07)	10.93	29.36	(48.81)[b,d]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	67	67	65	83	86	91
Ratio of expenses before expense reductions (%)	1.01*	1.02	1.03	.99	.94	1.02
Ratio of expenses after expense reductions (%)	.99*	1.02	1.03	.99	.94	1.01
Ratio of net investment income (%)	3.30*	2.46	2.44	1.90	1.89	3.04[c]
Portfolio turnover rate (%)	22**	18	26	14	139	132

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. On July 12, 2013, the Fund was renamed DWS Global Equity VIP.

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. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of June 30, 2013, the Fund had securities on loan with a gross value of $3,013,676. The value of the related collateral, $3,080,040, exceeded the value of the securities loaned at period end.

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, the Fund may be subject to taxes imposed by the governments of countries in which it invests and are generally based on income and/or capital gains earned or repatriated. 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. Tax liabilities realized as a result of security sales are reflected as a component of net realized gain/loss on investments.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses incurred post-enactment 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, 2012, the Fund had a net tax basis capital loss carryforward of approximately $64,369,000 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 ($25,205,000) and December 31, 2017 ($39,164,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2012 through December 31, 2012, the Fund elects to defer qualified late year losses of approximately $108,000 of net long-term realized capital losses and treat them as arising in the fiscal year ending December 31, 2013.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2012 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 from net investment income of the Fund, if any, are 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 based upon the relative net assets or other appropriate measures.

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, 2013, the Fund entered into 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, 2013 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $1,197,000 to $1,699,000.

The following table summarizes the value of the Fund's derivative instruments held as of June 30, 2013 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)	$ 3,784

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.

Liability Derivative	Futures Contracts
Equity Contracts (a)	$ (26,712)

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, 2013 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)	$ 78,186

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)	$ (27,008)

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, 2013, purchases and sales of investment transactions (excluding short-term investments) aggregated $14,864,235 and $15,793,563, 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") acted as an investment subadvisor to the Fund. As an investment subadvisor, QS Investors rendered strategic asset allocation services and managed the portion of assets allocated from time to time 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. Effective July 12, 2013, QS Investors no longer acts as subadvisor to the Fund and day-to-day portfolio management of the Fund transitioned to DIMA.

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%

For the period from January 1, 2013 through September 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 shares at 0.99%.

Accordingly, for the six months ended June 30, 2013, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $5,895, and the amount charged aggregated $216,278, which was equivalent to an annualized effective rate of 0.63% 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, 2013, the Administration Fee was $34,180, of which $5,586 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, 2013, the amounts charged to the Fund by DISC aggregated $56, 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, 2013, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $6,697, of which $6,267 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 Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and DWS Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and DWS Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that DWS Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in DWS Variable NAV Money Fund.

Securities Lending Fees. Effective February 7, 2013, Deutsche Bank AG serves as lending agent for the Fund. For the period from February 7, 2013 through June 30, 2013, the Fund incurred lending agent fees to Deutsche Bank AG in the amount of $6,119.

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, 2013, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 47%, 28% and 24%.

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, 2013.

H. Changes to Fund Name, Portfolio Management Team and Investment Strategies

On July 12, 2013, DWS Diversified International Equity VIP changed its name to DWS Global Equity VIP, and QS Investors, LLC no longer acts as subadvisor to the Fund. In addition, effective at that time, the Fund's portfolio management team changed and certain changes were made to the Fund's investment strategies and portfolio management process. More details regarding these changes are set forth in the Fund's prospectus dated July 12, 2013.

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 ben 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, 2013 to June 30, 2013).

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, 2013

Actual Fund Return	Class A
Beginning Account Value 1/1/13	$1,000.00
Ending Account Value 6/30/13	$1,024.50
Expenses Paid per $1,000*	$ 4.97

Hypothetical 5% Fund Return	Class A
Beginning Account Value 1/1/13	$1,000.00
Ending Account Value 6/30/13	$1,019.89
Expenses Paid per $1,000*	$ 4.96

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratio	Class A
DWS Variable Series II — DWS Diversified International Equity VIP	.99%

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.

For an analysis of the fees associated with an investment in the Fund or similar funds, please refer to http://apps.finra.org/fundanalyzer/1/fa.aspx.

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 17, 2012

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 2012, 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, 2010 and 2011.

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 103 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 "fallout" 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 considered how aggregated DWS Fund performance measures relative to appropriate peers had varied by asset class and over time.

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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VS2DIE-3 (R-028380-2 8/13)

JUNE 30, 2013

SEMIANNUAL REPORT

DWS VARIABLE SERIES II

DWS Global Growth VIP

(formerly 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. Smaller company stocks tend to be more volatile than medium-sized or large company stocks. Stocks may decline in value. See the prospectus for details.

DWS Investments is part of the Deutsche Asset & Wealth Management division of Deutsche Bank AG.

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

Performance Summary

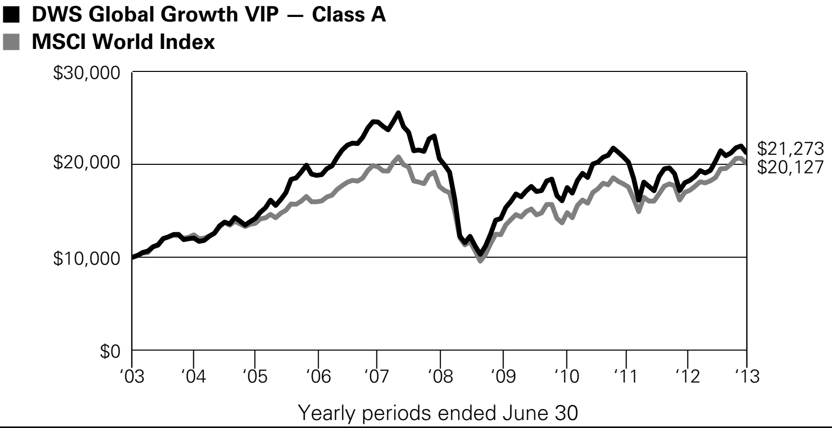
June 30, 2013 (Unaudited)

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, 2013 are 1.42% and 1.76% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Effective May 1, 2013, the Fund's investment strategies changed and the Fund seeks to achieve its objective by allocating its assets among a global growth sleeve and a small cap growth sleeve. The Fund's past performance may have been different if the Fund had been managed using the current investment strategies.

Growth of an Assumed $10,000 Investment in DWS Global Growth VIP



The Morgan Stanley Capital International (MSCI) World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The index consists of 24 developed market country indices. 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 Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,464	$11,805	$13,234	$10,318	$21,273
	Average annual total return	4.64%	18.05%	9.79%	0.63%	7.84%
MSCI World Index	Growth of $10,000	$10,843	$11,858	$14,705	$11,425	$20,127
	Average annual total return	8.43%	18.58%	13.72%	2.70%	7.25%

DWS Global Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,448	$11,772	$13,102	$10,138	$20,519
	Average annual total return	4.48%	17.72%	9.42%	0.28%	7.45%
MSCI World Index	Growth of $10,000	$10,843	$11,858	$14,705	$11,425	$20,127
	Average annual total return	8.43%	18.58%	13.72%	2.70%	7.25%

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)	**6/30/13**	**12/31/12**
Common Stocks	97%	97%
Cash Equivalents	2%	1%
Participatory Notes	1%	0%
Preferred Stock	—	2%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/13**	**12/31/12**
Industrials	20%	13%
Financials	14%	14%
Information Technology	14%	15%
Consumer Staples	13%	8%
Health Care	13%	12%
Consumer Discretionary	12%	10%
Energy	9%	8%
Materials	4%	13%
Telecommunication Services	1%	4%
Utilities	—	3%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/13**	**12/31/12**
United States	48%	37%
Continental Europe	26%	31%
Asia (excluding Japan)	9%	10%
United Kingdom	7%	2%
Canada	5%	6%
Latin America	2%	6%
Japan	2%	3%
Nigeria	1%	0%
Africa	—	2%
Middle East	—	2%
Bermuda	—	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

Joseph Axtell, CFA
Lead Portfolio Manager

Rafaelina M. Lee
Reid Galas, CFA
Nils E. Ernst, PhD
Martin Berberich, CFA
Sebastian P. Werner, PhD
Portfolio Managers

	Shares	Value ($)
Common Stocks 96.8%		
Austria 0.0%		
ams AG (Cost $17,728)	194	**14,322**
Belgium 1.0%		
Anheuser-Busch InBev NV (Cost $523,675)	5,500	**487,934**
Bermuda 0.2%		
Lazard Ltd. "A" (a) (Cost $81,931)	3,434	**110,403**
Canada 4.2%		
Brookfield Asset Management, Inc. "A"	23,000	826,662
Canadian Pacific Railway Ltd.	6,400	776,069
Goldcorp, Inc.	13,000	321,490
SunOpta, Inc.*	13,881	105,357
(Cost $2,271,988)		**2,029,578**
China 0.2%		
Minth Group Ltd. (Cost $130,583)	74,438	**116,926**
Cyprus 0.2%		
Prosafe SE (Cost $100,805)	10,632	**93,141**
Denmark 0.2%		
GN Store Nord A/S (Cost $109,509)	5,936	**112,070**
Finland 0.6%		
Stora Enso Oyj "R" (Cost $283,996)	40,000	**266,545**
France 3.9%		
Edenred	14,000	428,243
Etablissements Maurel et Prom (a)	14,000	208,007
JC Decaux SA	3,606	98,290
LVMH Moet Hennessy Louis Vuitton SA	2,300	370,383
Pernod-Ricard SA (a)	7,000	775,867
(Cost $2,010,094)		**1,880,790**
Germany 4.8%		
BASF SE	5,250	468,894
Fresenius Medical Care AG & Co. KGaA	12,000	850,168
Gerresheimer AG	1,472	85,066
SAP AG	5,100	373,452
Stada Arzneimittel AG	9,300	399,374
United Internet AG (Registered)	5,251	147,995
(Cost $2,332,992)		**2,324,949**
Hong Kong 0.7%		
K Wah International Holdings Ltd.	259,956	118,324
REXLot Holdings Ltd.	1,480,479	96,947
Techtronic Industries Co.	43,264	103,240
(Cost $368,087)		**318,511**
India 1.4%		
ICICI Bank Ltd. (ADR) (a) (Cost $805,229)	17,500	**669,375**
Indonesia 2.4%		
PT Arwana Citramulia Tbk	246,103	79,177
PT Ciputra Property Tbk	648,933	77,181
PT Gudang Garam Tbk	85,000	432,070
PT Indofood CBP Sukses Makmur Tbk	450,000	551,940
(Cost $1,149,198)		**1,140,368**
Ireland 2.8%		
C&C Group PLC	17,419	94,445
Experian PLC	27,000	468,303
Paddy Power PLC	1,652	141,751
Ryanair Holdings PLC (ADR) (a)	2,934	151,189
Shire PLC	15,000	475,845
(Cost $1,307,994)		**1,331,533**
Italy 0.8%		
Prysmian SpA	4,974	92,481
Unipol Gruppo Finanziario SpA	90,000	294,567
(Cost $418,136)		**387,048**
Japan 1.8%		
Ai Holdings Corp.	6,065	53,451
Avex Group Holdings, Inc.	3,864	121,755
Hajime Construction Co., Ltd.	2,215	123,293
Kusuri No Aoki Co., Ltd.	1,548	102,082
MISUMI Group, Inc.	2,378	65,020
Nippon Seiki Co., Ltd.	9,059	117,017
OSG Corp.	1,078	16,185
Sumikin Bussan Corp.	3,535	9,695
United Arrows Ltd.	3,891	163,015
Universal Entertainment Corp.	5,155	91,215
(Cost $934,020)		**862,728**
Korea 1.1%		
Hyundai Motor Co. (Cost $506,661)	2,600	**510,804**
Luxembourg 0.6%		
Millicom International Cellular SA (SDR) (Cost $359,124)	4,300	**310,024**
Malaysia 1.3%		
CIMB Group Holdings Bhd.	4,900	12,692
Hartalega Holdings Bhd.	67,619	136,739
IHH Healthcare Bhd.*	350,000	437,524
Tune Ins Holdings Bhd.*	86,331	50,432
(Cost $665,517)		**637,387**
Mexico 2.0%		
Fomento Economico Mexicano SAB de CV (ADR) (a)	7,000	722,330
Grupo Aeroportuario del Sureste SAB de CV (ADR) (a)	2,000	222,480
(Cost $1,042,663)		**944,810**
Netherlands 2.0%		
ASML Holding NV	7,000	549,178
Brunel International NV	2,130	89,675
Chicago Bridge & Iron Co. NV (c)	1,989	118,664
Koninklijke Vopak NV	1,654	97,522
SBM Offshore NV*	7,554	126,450
(Cost $945,174)		**981,489**
Norway 0.5%		
DNO International ASA* (Cost $240,816)	135,000	**246,315**

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

	Shares	Value ($)
Panama 0.2%		
Banco Latinoamericano de Comercio Exterior SA "E" (Cost $95,542)	4,262	**95,426**
Philippines 1.3%		
Alliance Global Group, Inc.*	196,669	105,209
GT Capital Holdings, Inc.	5,556	101,810
House of Investments, Inc.	67,997	11,792
Metropolitan Bank & Trust	155,000	395,626
(Cost $734,863)		**614,437**
Russia 0.9%		
Sberbank of Russia (ADR) (b)	22,119	253,926
Sberbank of Russia (ADR) (b)	17,881	203,875
(Cost $504,773)		**457,801**
Singapore 0.5%		
ARA Asset Management Ltd.	37,216	50,914
Lian Beng Group Ltd.	275,053	112,478
Yongnam Holdings Ltd.	317,588	86,191
(Cost $252,135)		**249,583**
Spain 0.3%		
Mapfre SA (Cost $185,754)	50,000	**161,749**
Sweden 4.8%		
Meda AB "A"	31,000	349,275
Svenska Cellulosa AB "B"	20,000	500,741
Swedish Match AB	18,000	636,358
Telefonaktiebolaget LM Ericsson "B"	40,000	453,493
Volvo AB "B"	30,000	399,847
(Cost $2,311,632)		**2,339,714**
Switzerland 2.4%		
Dufry AG (Registered)*	712	86,149
Nestle SA (Registered)	8,000	523,251
OC Oerlikon Corp. AG (Registered)*	4,566	53,871
Pentair Ltd. (Registered) (c)	9,000	519,210
(Cost $1,192,863)		**1,182,481**
Thailand 0.1%		
Malee Sampran Factory PCL (Foreign Registered) (Cost $72,605)	33,400	**36,615**
Turkey 0.6%		
Emlak Konut Gayrimenkul Yatirim Ortakligi AS (REIT)	100,000	140,774
Turkiye Halk Bankasi AS	20,000	169,056
(Cost $407,986)		**309,830**
United Kingdom 6.1%		
Aveva Group PLC	15,000	515,643
Babcock International Group PLC	8,656	145,741
BP PLC	100,000	693,717
Burberry Group PLC	3,645	75,194
Crest Nicholson Holdings PLC*	11,257	54,758
Domino's Pizza Group PLC	9,879	101,032
Essentra PLC	7,700	81,978
Hargreaves Lansdown PLC	6,942	93,368
HellermannTyton Group PLC*	24,491	96,430
IG Group Holdings PLC	11,488	101,644
Intertek Group PLC	15,000	668,393
John Wood Group PLC	8,030	99,209
Rotork PLC	2,366	95,718
Spirax-Sarco Engineering PLC	2,643	107,480
(Cost $3,087,664)		**2,930,305**
United States 46.9%		
Advance Auto Parts, Inc.	992	80,521
AECOM Technology Corp.*	2,707	86,056
Affiliated Managers Group, Inc.*	706	115,742
Agilent Technologies, Inc.	5,000	213,800
Allergan, Inc.	6,000	505,440
Alliance Data Systems Corp.* (a)	5,000	905,150
Altra Holdings, Inc.	2,110	57,772
Amphenol Corp. "A"	10,000	779,400
Applied Industrial Technologies, Inc.	1,766	85,351
BE Aerospace, Inc.*	1,915	120,798
Beam, Inc.	11,500	725,765
Blount International, Inc.*	4,376	51,724
BorgWarner, Inc.*	1,365	117,595
Bristol-Myers Squibb Co.	7,500	335,175
Cardtronics, Inc.*	2,805	77,418
Catamaran Corp.*	1,985	96,709
CBRE Group, Inc. "A"*	25,000	584,000
Cerner Corp.* (a)	4,200	403,578
Colfax Corp.*	10,000	521,100
Danaher Corp. (a)	10,000	633,000
Deckers Outdoor Corp.* (a)	1,165	58,844
DFC Global Corp.*	7,526	103,934
DIRECTV*	7,500	462,150
Dresser-Rand Group, Inc.*	1,695	101,666
Dril-Quip, Inc.*	944	85,234
eBay, Inc.*	3,800	196,536
Edwards Lifesciences Corp.* (a)	4,500	302,400
Encore Capital Group, Inc.*	2,721	90,092
ExamWorks Group, Inc.*	3,459	73,435
Exelis, Inc.	9,000	124,110
Exxon Mobil Corp.	4,200	379,470
FMC Technologies, Inc.*	9,000	501,120
General Electric Co.	20,000	463,800
Google, Inc. "A"*	550	484,203
Green Mountain Coffee Roasters, Inc.*	1,642	123,248
Hain Celestial Group, Inc.*	1,352	87,839
HeartWare International, Inc.* (a)	1,125	106,999
Hi-Tech Pharmacal Co., Inc.	3,675	122,010
Jack in the Box, Inc.*	1,435	56,381
Jarden Corp.*	2,548	111,475
JPMorgan Chase & Co.	16,000	844,640
L Brands, Inc.	12,000	591,000
Las Vegas Sands Corp.	10,000	529,300
Leucadia National Corp.	3,994	104,723
Manitowoc Co., Inc. (a)	6,058	108,499
MasterCard, Inc. "A" (a)	1,450	833,025
McDonald's Corp.	6,000	594,000
MICROS Systems, Inc.*	1,693	73,053
Microsoft Corp.	16,000	552,480
Middleby Corp.*	688	117,022
Monster Beverage Corp.* (a)	7,000	425,390
National Oilwell Varco, Inc.	6,000	413,400
Noble Energy, Inc. (a)	8,500	510,340
Oasis Petroleum, Inc.*	1,932	75,097
Ocwen Financial Corp.*	3,047	125,597
Oil States International, Inc.*	661	61,235

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

	Shares	Value ($)
Onyx Pharmaceuticals, Inc.* (a)	2,200	191,004
Pacira Pharmaceuticals, Inc.*	5,771	167,359
Pall Corp. (a)	7,500	498,225
Pfizer, Inc.	19,000	532,190
Polaris Industries, Inc. (a)	1,213	115,235
Praxair, Inc.	7,000	806,120
Precision Castparts Corp.	2,700	610,227
PTC, Inc.*	2,159	52,960
Roadrunner Transportation Systems, Inc.*	3,488	97,106
Rosetta Resources, Inc.*	981	41,712
Schlumberger Ltd.	10,000	716,600
Sears Hometown & Outlet Stores, Inc.*	2,142	93,648
Signature Bank*	809	67,163
Stericycle, Inc.*	530	58,528
Tenneco, Inc.*	2,070	93,730
The Bancorp., Inc.*	2,216	33,218
Thermon Group Holdings, Inc.*	4,649	94,840
Thoratec Corp.*	2,807	87,887
TIBCO Software, Inc.*	3,368	72,075
TiVo, Inc.*	3,929	43,415
Tractor Supply Co. (a)	2,600	305,786
Tristate Capital Holdings, Inc.*	4,299	59,111
United Rentals, Inc.*	1,923	95,977
United Technologies Corp.	7,000	650,580
Urban Outfitters, Inc.*	2,157	86,755
WABCO Holdings, Inc.*	1,514	113,081
Waddell & Reed Financial, Inc. "A" (a)	2,494	108,489
Western Digital Corp.	2,924	181,551
Zions Bancorp. (a)	4,255	122,885
(Cost $22,295,020)		**22,687,298**
Total Common Stocks (Cost $47,746,757)		**46,842,289**

Participatory Note 1.0%

Nigeria

	Shares	Value ($)
Zenith Bank PLC (issuer Merrill Lynch International), Expiration Date 8/21/2015* (Cost $533,000)	4,100,000	**499,478**

Securities Lending Collateral 16.9%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.10% (d) (e) (Cost $8,186,461)	8,186,461	**8,186,461**

Cash Equivalents 1.9%

	Shares	Value ($)
Central Cash Management Fund, 0.07% (d) (Cost $905,378)	905,378	**905,378**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $57,371,596)†	116.6	**56,433,606**
Other Assets and Liabilities, Net	(16.6)	**(8,026,509)**
Net Assets	100.0	**48,407,097**

* Non-income producing security.

† The cost for federal income tax purposes was $57,977,545. At June 30, 2013, net unrealized depreciation for all securities based on tax cost was $1,543,939. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $1,489,386 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,033,325.

(a) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of securities loaned at June 30, 2013 amounted to $8,026,573, which is 16.6% of net assets.

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

(c) Listed on the New York Stock Exchange.

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

(e) 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

SDR: Swedish 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, 2013 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 (f)				
Austria	$ —	$ 14,322	$ —	$ 14,322
Belgium	—	487,934	—	487,934
Bermuda	110,403	—	—	110,403
Canada	2,029,578	—	—	2,029,578
China	—	116,926	—	116,926
Cyprus	—	93,141	—	93,141
Denmark	—	112,070	—	112,070
Finland	—	266,545	—	266,545
France	—	1,880,790	—	1,880,790
Germany	—	2,324,949	—	2,324,949
Hong Kong	—	318,511	—	318,511
India	669,375	—	—	669,375
Indonesia	—	1,140,368	—	1,140,368
Ireland	151,189	1,180,344	—	1,331,533
Italy	—	387,048	—	387,048
Japan	—	862,728	—	862,728
Korea	—	510,804	—	510,804
Luxembourg	—	310,024	—	310,024
Malaysia	—	637,387	—	637,387
Mexico	944,810	—	—	944,810
Netherlands	118,664	862,825	—	981,489
Norway	—	246,315	—	246,315
Panama	95,426	—	—	95,426
Philippines	—	614,437	—	614,437
Russia	253,926	203,875	—	457,801
Singapore	—	249,583	—	249,583
Spain	—	161,749	—	161,749
Sweden	—	2,339,714	—	2,339,714
Switzerland	519,210	663,271	—	1,182,481
Thailand	—	36,615	—	36,615
Turkey	—	309,830	—	309,830
United Kingdom	—	2,930,305	—	2,930,305
United States	22,687,298	—	—	22,687,298
Participatory Note (f)	—	499,478	—	499,478
Short-Term Investments (f)	9,091,839	—	—	9,091,839
Total	**$ 36,671,718**	**$ 19,761,888**	**$ —**	**$ 56,433,606**

There have been no transfers between fair value measurement levels during the period ended June 30, 2013.

(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, 2013 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $48,279,757) — including $8,026,573 of securities loaned	47,341,767
Investment in Daily Assets Fund Institutional (cost $8,186,461)*	8,186,461
Investment in Central Cash Management Fund (cost $905,378)	905,378
Total investments in securities, at value (cost $57,371,596)	56,433,606
Cash	5,720
Foreign currency, at value (cost $178,413)	175,299
Receivable for investments sold	62,420
Receivable for Fund shares sold	1,819
Dividends receivable	41,984
Interest receivable	1,370
Foreign taxes recoverable	25,378
Other assets	451
Total assets	56,748,047
Liabilities	
Payable upon return of securities loaned	8,186,461
Payable for investments purchased	2,899
Payable for Fund shares redeemed	52,262
Accrued management fee	13,389
Accrued Trustees' fees	579
Other accrued expenses and payables	85,360
Total liabilities	8,340,950
Net assets, at value	**48,407,097**
Net Assets Consist of	
Undistributed net investment income	412,328
Net unrealized appreciation (depreciation) on:	
Investments	(937,990)
Foreign currency	(4,090)
Accumulated net realized gain (loss)	(44,888,564)
Paid-in capital	93,825,413
Net assets, at value	**48,407,097**
Class A	
Net Asset Value, offering and redemption price per share ($45,778,415 ÷ 4,798,176 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 9.54**
Class B	
Net Asset Value, offering and redemption price per share ($2,628,682 ÷ 274,767 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 9.57**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2013 (Unaudited)

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $51,898)	$ 662,048
Income distributions — Central Cash Management Fund	362
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	19,126
Total income	681,536
Expenses:	
Management fee	246,644
Administration fee	26,956
Services to shareholders	733
Record keeping fees (Class B)	1,377
Distribution service fee (Class B)	3,551
Custodian fee	44,252
Audit and tax fees	31,343
Legal fees	6,725
Reports to shareholders	13,183
Trustees' fees and expenses	2,293
Other	16,606
Total expenses before expense reductions	393,663
Expense reductions	(144,941)
Total expenses after expense reductions	248,722
Net investment income (loss)	**432,814**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	8,414,285
Foreign currency	(18,387)
	8,395,898
Change in net unrealized appreciation (depreciation) on:	
Investments	(6,058,400)
Foreign currency	(3,673)
	(6,062,073)
Net gain (loss)	**2,333,825**
Net increase (decrease) in net assets resulting from operations	**$ 2,766,639**

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, 2013 (Unaudited)	Year Ended December 31, 2012
Operations:		
Net investment income (loss)	$ 432,814	$ 758,059
Net realized gain (loss)	8,395,898	97,908
Change in net unrealized appreciation (depreciation)	(6,062,073)	8,394,806
Net increase (decrease) in net assets resulting from operations	2,766,639	9,250,773
Distributions to shareholders from:		
Net investment income:		
Class A	(689,482)	(741,039)
Class B	(27,740)	(31,068)
Total distributions	(717,222)	(772,107)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,790,554	7,619,915
Reinvestment of distributions	689,482	741,039
Payments for shares redeemed	(12,210,394)	(12,066,736)
Net increase (decrease) in net assets from Class A share transactions	(9,730,358)	(3,705,782)
Class B		
Proceeds from shares sold	27,930	80,402
Reinvestment of distributions	27,740	31,068
Payments for shares redeemed	(406,537)	(823,480)
Net increase (decrease) in net assets from Class B share transactions	(350,867)	(712,010)
Increase (decrease) in net assets	(8,031,808)	4,060,874
Net assets at beginning of period	56,438,905	52,378,031
Net assets at end of period (including undistributed net investment income of $412,328 and $696,736, respectively)	**$ 48,407,097**	**$ 56,438,905**

Other Information		
Class A		
Shares outstanding at beginning of period	5,793,732	6,234,878
Shares sold	186,147	882,663
Shares issued to shareholders in reinvestment of distributions	71,746	85,967
Shares redeemed	(1,253,449)	(1,409,776)
Net increase (decrease) in Class A shares	(995,556)	(441,146)
Shares outstanding at end of period	**4,798,176**	**5,793,732**
Class B		
Shares outstanding at beginning of period	311,300	393,322
Shares sold	2,930	9,525
Shares issued to shareholders in reinvestment of distributions	2,878	3,592
Shares redeemed	(42,341)	(95,139)
Net increase (decrease) in Class B shares	(36,533)	(82,022)
Shares outstanding at end of period	**274,767**	**311,300**

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

Financial Highlights

Class A	Six Months Ended 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$ 9.24**	**$ 7.90**	**$ 9.28**	**$ 8.24**	**$ 5.84**	**$15.66**
Income (loss) from investment operations:						
Net investment income[a]	.08	.12	.11	.06	.08	.11
Net realized and unrealized gain (loss)	.35	1.34	(1.43)	1.06	2.42	(5.83)
Total from investment operations	.43	1.46	(1.32)	1.12	2.50	(5.72)
Less distributions from:						
Net investment income	(.13)	(.12)	(.06)	(.08)	(.10)	(.19)
Net realized gains	—	—	—	—	—	(3.91)
Total distributions	(.13)	(.12)	(.06)	(.08)	(.10)	(4.10)
Net asset value, end of period	**$ 9.54**	**$ 9.24**	**$ 7.90**	**$ 9.28**	**$ 8.24**	**$ 5.84**
Total Return (%)[b]	4.64**	18.60	(14.39)	13.65	43.82	(47.75)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	46	54	49	68	66	59
Ratio of expenses before expense reductions (%)	1.44*	1.42	1.37	1.41	1.38	1.47
Ratio of expenses after expense reductions (%)	.90*	.99	1.03	1.05	1.04	1.09
Ratio of net investment income (%)	1.62*	1.40	1.24	.77	1.23	1.09
Portfolio turnover rate (%)	138**	107	127	165	190	229

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 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$ 9.25**	**$ 7.91**	**$ 9.29**	**$ 8.25**	**$ 5.85**	**$15.66**
Income (loss) from investment operations:						
Net investment income[a]	.06	.09	.08	.04	.06	.07
Net realized and unrealized gain (loss)	.36	1.34	(1.44)	1.05	2.42	(5.83)
Total from investment operations	.42	1.43	(1.36)	1.09	2.48	(5.76)
Less distributions from:						
Net investment income	(.10)	(.09)	(.02)	(.05)	(.08)	(.14)
Net realized gains	—	—	—	—	—	(3.91)
Total distributions	(.10)	(.09)	(.02)	(.05)	(.08)	(4.05)
Net asset value, end of period	**$ 9.57**	**$ 9.25**	**$ 7.91**	**$ 9.29**	**$ 8.25**	**$ 5.85**
Total Return (%)[b]	4.48**	18.16	(14.67)	13.24	43.23	(47.87)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	3	3	3	5	5	4
Ratio of expenses before expense reductions (%)	1.79*	1.76	1.72	1.76	1.73	1.82
Ratio of expenses after expense reductions (%)	1.25*	1.34	1.38	1.40	1.39	1.45
Ratio of net investment income (%)	1.30*	1.04	.88	.42	.88	.73
Portfolio turnover rate (%)	138**	107	127	165	190	229

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 Growth VIP (formerly 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. Brown Brothers Harriman & Co., as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of June 30, 2013, the Fund had securities on loan with a gross value of $8,026,573. The value of the related collateral, $8,186,461, exceeded the value of the securities loaned at period end.

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, the Fund may be subject to taxes imposed by the governments of countries in which it invests and are generally based on income and/or capital gains earned or repatriated. 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. Tax liabilities realized as a result of security sales are reflected as a component of net realized gain/loss on investments.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses incurred post-enactment 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, 2012, the Fund had a net tax basis capital loss carryforward of approximately $52,710,000, including $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 ($33,717,000) and December 31, 2017 ($17,811,000), the respective expiration dates, whichever occurs first; and approximately $1,182,000 of post-enactment losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($775,000) and long-term losses ($407,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2012 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 from net investment income of the Fund, if any, are 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, 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 based upon the relative net assets or other appropriate measures.

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, 2013, purchases and sales of investment transactions (excluding short-term investments) aggregated $73,674,739 and $84,656,183, 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") served as subadvisor to the Fund through April 30, 2013. GTP or the "Subadvisor" was paid by the Advisor for the service GTP provided to the Fund. Effective as of the close of business on April 30, 2013, the sub-advisory agreement with GTP was terminated and day-to-day portfolio management of the Fund transitioned to DIMA. At that time, the Fund's name changed from "DWS Global Thematic VIP" to "DWS Global Growth VIP."

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, 2013 through September 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	.90%
Class B	1.25%

Accordingly, for the six months ended June 30, 2013, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $144,800, and the amount charged aggregated $101,844, which was equivalent to an annualized effective rate of 0.38% 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, 2013, the Administration Fee was $26,956, of which $4,083 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, 2013, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	Total Aggregated	Waived
Class A	$ 130	$ 130
Class B	30	11
	$ 160	**$ 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, 2013, the Distribution Service Fee aggregated $3,551, of which $571 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, 2013, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $7,662, of which $6,833 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 Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and DWS Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and DWS Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that DWS Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in DWS Variable NAV Money Fund.

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, 2013, two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 71% and 24%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 96%.

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, 2013.

G. Changes to Fund Name and Investment Strategy

Effective May 1, 2013, DWS Global Thematic VIP changed its name to DWS Global Growth VIP and the sub-advisory agreement with Global Thematic Partners, LLC was terminated and the day-to-day management of the Fund was transitioned to Deutsche Investment Management Americas Inc. Effective that same day, the Fund's investment strategy changed and the Fund seeks to achieve its objective by allocating its assets among a global growth sleeve and a small cap growth sleeve. For a description of the Fund's investment strategy, please see the Fund's current prospectus dated May 1, 2013.

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, 2013 to June 30, 2013).

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, 2013

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/13	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,046.40	$1,044.80
Expenses Paid per $1,000*	$ 4.57	$ 6.34
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/13	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,020.33	$1,018.60
Expenses Paid per $1,000*	$ 4.51	$ 6.26

* 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 181 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Global Growth VIP	.90%	1.25%

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.

For an analysis of the fees associated with an investment in the Fund or similar funds, please refer to http://apps.finra.org/fundanalyzer/1/fa.aspx.

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 17, 2012

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 2012, 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, 2010 and 2011.

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 103 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 "fallout" 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 considered how aggregated DWS Fund performance measures relative to appropriate peers had varied by asset class and over time.
- 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

VS2GG-3 (R-028383-2 8/13)

JUNE 30, 2013

SEMIANNUAL REPORT

DWS VARIABLE SERIES II

DWS Global Income Builder 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 Exchange Traded Funds (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.

DWS Investments is part of the Deutsche Asset & Wealth Management division of Deutsche Bank AG.

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

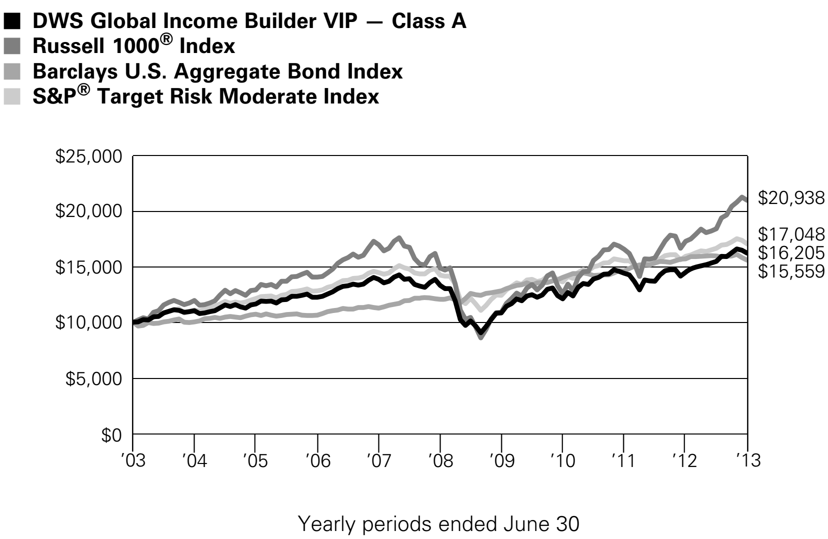
Performance Summary

June 30, 2013 (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, 2013 is 0.60% 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



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 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.

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	$10,484	$11,186	$13,381	$12,194	$16,205
	Average annual total return	4.84%	11.86%	10.19%	4.05%	4.95%
Russell 1000® Index	Growth of $10,000	$11,391	$12,124	$16,695	$14,104	$20,938
	Average annual total return	13.91%	21.24%	18.63%	7.12%	7.67%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$9,756	$9,931	$11,090	$12,878	$15,559
	Average annual total return	–2.44%	–0.69%	3.51%	5.19%	4.52%
S&P® Target Risk Moderate Index	Growth of $10,000	$10,249	$10,718	$12,526	$11,990	$17,048
	Average annual total return	2.49%	7.18%	7.80%	3.70%	5.48%

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)	**6/30/13**	**12/31/12**
Equity	**57%**	**55%**
Common Stocks	57%	55%
Fixed Income	**37%**	**44%**
Corporate Bonds	24%	28%
Government & Agency Obligations	5%	6%
Mortgage-Backed Securities Pass-Throughs	4%	3%
Collateralized Mortgage Obligations	2%	2%
Commercial Mortgage-Backed Securities	1%	1%
Loan Participations and Assignments	1%	3%
Asset-Backed	0%	1%
Cash Equivalents	**6%**	**1%**
	100%	100%

Sector Diversification (As a % of Equities, Corporate Bonds, Loan Participations and Assignments, Preferred Securities, Preferred Stocks, Convertible Bonds and Other Investments)	**6/30/13**	**12/31/12**
Consumer Staples	17%	13%
Financials	14%	19%
Health Care	13%	11%
Consumer Discretionary	12%	8%
Information Technology	10%	8%
Energy	9%	13%
Telecommunication Services	8%	7%
Materials	7%	8%
Utilities	6%	7%
Industrials	4%	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

Owen Fitzpatrick, CFA, Managing Director
William Chepolis, CFA, Managing Director
Philip G. Condon, Managing Director
Gary Russell, CFA, Managing Director
John D. Ryan, Director
Darwei Kung, Director
Louis Cucciniello, Managing Director
Portfolio Managers

	Shares	Value ($)
Common Stocks 58.5%		
Consumer Discretionary 4.9%		
Distributors 0.6%		
Genuine Parts Co.	20,971	**1,637,206**
Hotels, Restaurants & Leisure 0.0%		
Trump Entertainment Resorts, Inc.*	2	**0**
Media 2.8%		
Pearson PLC	146,342	2,598,407
Vertis Holdings, Inc.*	111	0
Wolters Kluwer NV	213,753	4,507,773
		7,106,180
Specialty Retail 0.8%		
Staples, Inc. (a)	127,563	**2,023,149**
Textiles, Apparel & Luxury Goods 0.7%		
VF Corp.	9,370	**1,808,972**
Consumer Staples 12.6%		
Beverages 3.1%		
PepsiCo, Inc.	96,586	**7,899,769**
Food Products 2.0%		
Nestle SA (Registered)	38,522	2,519,586
Unilever NV (CVA)	70,398	2,761,491
		5,281,077
Household Products 3.9%		
Procter & Gamble Co.	131,022	**10,087,384**
Tobacco 3.6%		
Altria Group, Inc.	22,297	780,172
British American Tobacco PLC	75,001	3,851,556
Imperial Tobacco Group PLC	133,518	4,639,105
		9,270,833
Energy 5.1%		
Energy Equipment & Services 1.2%		
Transocean Ltd.	49,591	2,377,888
WorleyParsons Ltd.	41,890	740,695
		3,118,583
Oil, Gas & Consumable Fuels 3.9%		
Canadian Natural Resources Ltd. (b)	148,747	4,193,543
Canadian Natural Resources Ltd. (b)	19,470	550,222
ConocoPhillips	36,670	2,218,535
Enbridge, Inc. (a)	37,678	1,583,859
TransCanada Corp. (a)	35,400	1,524,115
		10,070,274
Financials 6.4%		
Commercial Banks 1.7%		
Bank of Nova Scotia (a)	42,153	2,253,344
Toronto-Dominion Bank (a)	26,057	2,092,835
		4,346,179
Insurance 4.7%		
PartnerRe Ltd.	64,143	5,808,790
Powszechny Zaklad Ubezpieczen SA	19,922	2,454,784
Sampo Oyj "A"	97,659	3,789,963
		12,053,537

	Shares	Value ($)
Health Care 9.1%		
Health Care Equipment & Supplies 1.3%		
Stryker Corp.	53,814	**3,480,689**
Health Care Providers & Services 2.0%		
Rhoen-Klinikum AG (a)	217,864	**5,025,158**
Pharmaceuticals 5.8%		
Novartis AG (Registered)	70,713	5,011,388
Roche Holding AG (Genusschein)	22,895	5,673,023
Sanofi	40,368	4,160,208
		14,844,619
Industrials 3.9%		
Aerospace & Defense 0.8%		
BAE Systems PLC	333,558	**1,949,569**
Air Freight & Logistics 0.7%		
Singapore Post Ltd.	1,691,000	**1,731,169**
Building Products 0.0%		
Congoleum Corp.*	3,800	**0**
Industrial Conglomerates 2.4%		
Koninklijke Philips NV	132,940	3,621,084
Smiths Group PLC	132,457	2,642,884
		6,263,968
Information Technology 6.5%		
Computers & Peripherals 2.1%		
Diebold, Inc.	73,183	2,465,535
Wincor Nixdorf AG	53,134	2,873,238
		5,338,773
IT Services 0.8%		
Automatic Data Processing, Inc.	29,631	**2,040,391**
Semiconductors & Semiconductor Equipment 0.2%		
Intel Corp. (a)	16,106	**390,087**
Software 3.4%		
Microsoft Corp.	255,967	**8,838,540**
Materials 4.1%		
Chemicals 1.5%		
Air Liquide SA	20,107	2,473,600
Air Products & Chemicals, Inc. (a)	16,448	1,506,143
		3,979,743
Construction Materials 0.0%		
Wolverine Tube, Inc.*	366	**6,632**
Containers & Packaging 1.6%		
Sealed Air Corp.	104,279	2,497,482
Sonoco Products Co.	44,783	1,548,148
		4,045,630
Metals & Mining 1.0%		
Franco-Nevada Corp. (a)	69,992	**2,505,657**
Telecommunication Services 1.9%		
Diversified Telecommunication Services 0.1%		
Belgacom SA	16,948	**378,734**
Wireless Telecommunication Services 1.8%		
NTT DoCoMo, Inc.	1,761	2,736,321
Vodafone Group PLC	647,520	1,858,199
		4,594,520

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

	Shares	Value ($)
Utilities 4.0%		
Gas Utilities 2.9%		
UGI Corp.	191,311	**7,482,173**
Multi-Utilities 1.1%		
National Grid PLC	245,568	**2,777,739**
Total Common Stocks (Cost $130,104,883)		**150,376,934**

Preferred Stock 0.0%

	Shares	Value ($)
Financials		
Ally Financial, Inc. 144A, 7.0% (Cost $71,281)	75	**71,290**

Warrants 0.0%

	Shares	Value ($)
Consumer Discretionary 0.0%		
Reader's Digest Association, Inc., Expiration Date 2/19/2014*	80	**0**
Materials 0.0%		
GEO Specialty Chemicals, Inc., Expiration Date 3/31/2015*	19,324	11,345
Hercules Trust II, Expiration Date 3/31/2029*	170	2,249
		13,594
Total Warrants (Cost $30,283)		**13,594**

Corporate Bonds 25.0%

	Principal Amount ($)(c)	Value ($)
Consumer Discretionary 3.5%		
AMC Entertainment, Inc., 8.75%, 6/1/2019	405,000	433,350
AmeriGas Finance LLC:		
6.75%, 5/20/2020	10,000	10,350
7.0%, 5/20/2022	10,000	10,225
APX Group, Inc., 144A, 6.375%, 12/1/2019	50,000	47,500
Asbury Automotive Group, Inc.:		
7.625%, 3/15/2017	35,000	36,007
144A, 8.375%, 11/15/2020	15,000	16,613
Ashtead Capital, Inc., 144A, 6.5%, 7/15/2022	80,000	83,400
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	80,000	80,800
Avis Budget Car Rental LLC:		
144A, 5.5%, 4/1/2023	50,000	48,250
8.25%, 1/15/2019	15,000	16,313
BC Mountain LLC, 144A, 7.0%, 2/1/2021	50,000	51,000
Block Communications, Inc., 144A, 7.25%, 2/1/2020	20,000	21,000
Boyd Gaming Corp., 9.0%, 7/1/2020 (a)	40,000	40,550
British Sky Broadcasting Group PLC, 144A, 3.125%, 11/26/2022	90,000	84,160
Caesar's Entertainment Operating Co., Inc., 8.5%, 2/15/2020	610,000	574,925
Caesar's Operating Escrow LLC, 144A, 9.0%, 2/15/2020	65,000	61,912
CCO Holdings LLC:		
6.5%, 4/30/2021	420,000	437,850
6.625%, 1/31/2022	705,000	734,962
7.375%, 6/1/2020	10,000	10,875
CDR DB Sub, Inc., 144A, 7.75%, 10/15/2020	55,000	55,137
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	65,000	61,100
144A, 6.375%, 9/15/2020	285,000	289,987
Clear Channel Communications, Inc., 144A, 11.25%, 3/1/2021	70,000	72,975
Clear Channel Worldwide Holdings, Inc.:		
Series A, 144A, 6.5%, 11/15/2022	65,000	66,625
Series B, 144A, 6.5%, 11/15/2022	90,000	92,700
Series A, 7.625%, 3/15/2020	10,000	10,300
Series B, 7.625%, 3/15/2020	255,000	263,925
Cogeco Cable, Inc., 144A, 4.875%, 5/1/2020	5,000	4,863
Columbus International, Inc., 144A, 11.5%, 11/20/2014	100,000	107,750
Cox Communications, Inc., 144A, 3.25%, 12/15/2022	80,000	75,266
Cumulus Media Holdings, Inc., 7.75%, 5/1/2019	50,000	48,875
Delphi Corp., 5.0%, 2/15/2023	70,000	71,925
DISH DBS Corp., 7.875%, 9/1/2019	270,000	302,400
Fontainebleau Las Vegas Holdings LLC, 144A, 11.0%, 6/15/2015*	25,000	0
Griffey Intermediate, Inc., 144A, 7.0%, 10/15/2020	95,000	91,675
Harron Communications LP, 144A, 9.125%, 4/1/2020	45,000	48,600
Hertz Corp.:		
144A, 4.25%, 4/1/2018	45,000	43,875
6.75%, 4/15/2019	280,000	296,100
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	40,000	40,500
Jo-Ann Stores Holdings, Inc., 144A, 9.75%, 10/15/2019 (PIK)	120,000	123,300
Libbey Glass, Inc., 6.875%, 5/15/2020	27,000	28,249
LKQ Corp., 144A, 4.75%, 5/15/2023	80,000	76,400
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	40,000	39,900
Mediacom Broadband LLC, 6.375%, 4/1/2023	35,000	34,825
Mediacom LLC, 9.125%, 8/15/2019	580,000	623,500
MGM Resorts International:		
6.625%, 12/15/2021	150,000	154,687
6.75%, 10/1/2020 (a)	40,000	41,400
8.625%, 2/1/2019	400,000	452,000
National CineMedia LLC, 6.0%, 4/15/2022	10,000	10,263
Petco Holdings, Inc., 144A, 8.5%, 10/15/2017 (PIK)	30,000	30,600

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

		Principal Amount ($)(c)	Value ($)
Quebecor Media, Inc., 5.75%, 1/15/2023		50,000	48,750
Rent-A-Center, Inc., 144A, 4.75%, 5/1/2021		40,000	37,900
SACI Falabella, 144A, 3.75%, 4/30/2023		200,000	183,000
Schaeffler Finance BV, 144A, 7.75%, 2/15/2017		845,000	933,725
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021		35,000	33,950
Serta Simmons Holdings LLC, 144A, 8.125%, 10/1/2020		55,000	55,962
SIWF Merger Sub, Inc., 144A, 6.25%, 6/1/2021		85,000	83,300
Starz LLC, 5.0%, 9/15/2019		40,000	39,700
Taylor Morrison Communities, Inc., 144A, 5.25%, 4/15/2021		65,000	61,750
Travelport LLC, 144A, 6.4%**, 3/1/2016		11,536	10,786
Unitymedia Hessen GmbH & Co., KG:			
144A, 5.5%, 1/15/2023		200,000	189,000
144A, 7.5%, 3/15/2019	EUR	400,000	552,811
Unitymedia KabelBW GmbH, 144A, 9.625%, 12/1/2019	EUR	110,000	157,500
Univision Communications, Inc., 144A, 6.875%, 5/15/2019		25,000	26,250
Viking Cruises Ltd., 144A, 8.5%, 10/15/2022		50,000	54,750
			8,928,878

Consumer Staples 1.6%

	Principal Amount ($)(c)	Value ($)
B&G Foods, Inc., 4.625%, 6/1/2021	70,000	66,850
Chiquita Brands International, Inc., 144A, 7.875%, 2/1/2021	45,000	47,138
ConAgra Foods, Inc., 3.25%, 9/15/2022	235,000	224,186
Constellation Brands, Inc.:		
3.75%, 5/1/2021	65,000	60,856
6.0%, 5/1/2022	5,000	5,363
Controladora Mabe SA de CV, 144A, 7.875%, 10/28/2019	100,000	107,000
Del Monte Corp., 7.625%, 2/15/2019	95,000	97,612
Hawk Acquisition Sub, Inc., 144A, 4.25%, 10/15/2020	465,000	444,656
JBS U.S.A. LLC, 144A, 8.25%, 2/1/2020	370,000	387,575
MHP SA, 144A, 8.25%, 4/2/2020	200,000	178,165
Minerva Luxembourg SA, 144A, 12.25%, 2/10/2022	250,000	298,750
Mriya Agro Holding PLC, 144A, 9.45%, 4/19/2018	200,000	178,000
Pilgrim's Pride Corp., 7.875%, 12/15/2018	430,000	457,950
Reynolds Group Issuer, Inc.:		
5.75%, 10/15/2020	95,000	95,712
7.125%, 4/15/2019	1,015,000	1,072,094
Smithfield Foods, Inc., 6.625%, 8/15/2022	145,000	155,875
Sun Products Corp., 144A, 7.75%, 3/15/2021	90,000	89,325
Tops Holding Corp., 144A, 8.875%, 12/15/2017	25,000	27,063
		3,994,170

Energy 2.6%

	Principal Amount ($)(c)	Value ($)
Access Midstream Partners LP:		
4.875%, 5/15/2023	60,000	55,650
6.125%, 7/15/2022	15,000	15,188
Afren PLC, 144A, 10.25%, 4/8/2019	200,000	223,500
Berry Petroleum Co.:		
6.375%, 9/15/2022	50,000	49,812
6.75%, 11/1/2020	50,000	51,750
BreitBurn Energy Partners LP, 7.875%, 4/15/2022	50,000	51,000
Chaparral Energy, Inc., 7.625%, 11/15/2022	85,000	86,700
Chesapeake Energy Corp., 5.75%, 3/15/2023	25,000	25,313
Continental Resources, Inc.:		
144A, 4.5%, 4/15/2023	15,000	14,588
5.0%, 9/15/2022	40,000	40,700
Crosstex Energy LP, 7.125%, 6/1/2022	25,000	25,250
DCP Midstream LLC, 144A, 9.75%, 3/15/2019	200,000	257,926
Denbury Resources, Inc., 4.625%, 7/15/2023	125,000	115,312
Eagle Rock Energy Partners LP, 8.375%, 6/1/2019	90,000	91,575
EDC Finance Ltd., 144A, 4.875%, 4/17/2020	200,000	183,000
Enterprise Products Operating LLC, 6.125%, 10/15/2039	230,000	255,778
EP Energy LLC:		
6.875%, 5/1/2019	15,000	16,050
7.75%, 9/1/2022	80,000	85,600
EPE Holdings LLC, 144A, 8.125%, 12/15/2017 (PIK) (a)	114,717	117,011
EV Energy Partners LP, 8.0%, 4/15/2019	35,000	35,350
FMC Technologies, Inc., 3.45%, 10/1/2022	200,000	191,587
Halcon Resources Corp.:		
8.875%, 5/15/2021	135,000	130,950
9.75%, 7/15/2020	65,000	64,837
Holly Energy Partners LP, 6.5%, 3/1/2020	10,000	10,075
KazMunayGas National Co. JSC, 144A, 5.75%, 4/30/2043	200,000	177,000
Kodiak Oil & Gas Corp., 144A, 5.5%, 1/15/2021 (a)	60,000	58,500
Linn Energy LLC:		
144A, 6.25%, 11/1/2019	540,000	514,350
6.5%, 5/15/2019	25,000	24,438
Lukoil International Finance BV, 144A, 7.25%, 11/5/2019	250,000	280,375
MEG Energy Corp., 144A, 6.375%, 1/30/2023	230,000	223,100
Memorial Production Partners LP, 144A, 7.625%, 5/1/2021	95,000	93,575
Midstates Petroleum Co., Inc.:		
144A, 9.25%, 6/1/2021	135,000	126,900
144A, 10.75%, 10/1/2020	55,000	55,275

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

		Principal Amount ($)(c)	Value ($)
Murray Energy Corp., 144A, 8.625%, 6/15/2021		15,000	15,000
Northern Oil & Gas, Inc., 8.0%, 6/1/2020		140,000	141,400
Oasis Petroleum, Inc.:			
6.5%, 11/1/2021		225,000	230,625
6.875%, 1/15/2023		35,000	36,050
7.25%, 2/1/2019		60,000	62,550
Odebrecht Drilling Norbe VIII/IX Ltd., 144A, 6.35%, 6/30/2021		95,000	95,950
Offshore Group Investment Ltd.:			
144A, 7.125%, 4/1/2023		100,000	98,250
7.5%, 11/1/2019 (a)		140,000	145,950
ONEOK Partners LP, 6.15%, 10/1/2016		201,000	229,151
Pacific Drilling SA, 144A, 5.375%, 6/1/2020		70,000	65,450
Pacific Rubiales Energy Corp., 144A, 5.125%, 3/28/2023		200,000	189,000
Petroleos de Venezuela SA, 144A, 8.5%, 11/2/2017		250,000	229,062
Plains Exploration & Production Co., 6.75%, 2/1/2022		15,000	15,897
Range Resources Corp., 5.0%, 3/15/2023		25,000	24,438
Regency Energy Partners LP, 144A, 4.5%, 11/1/2023		25,000	22,625
Reliance Holdings U.S.A., Inc., 144A, 5.4%, 2/14/2022		250,000	253,972
Sabine Pass Liquefaction LLC, 144A, 5.625%, 2/1/2021		175,000	169,750
SandRidge Energy, Inc., 7.5%, 3/15/2021		190,000	181,450
SESI LLC, 7.125%, 12/15/2021		30,000	32,400
Talos Production LLC, 144A, 9.75%, 2/15/2018		95,000	90,250
Tesoro Corp., 5.375%, 10/1/2022		35,000	35,437
Transocean, Inc., 3.8%, 10/15/2022		370,000	352,444
Transportadora de Gas Internacional SA ESP, 144A, 5.7%, 3/20/2022		200,000	206,500
			6,671,616

Financials 4.8%

		Principal Amount ($)(c)	Value ($)
Ally Financial, Inc.:			
5.5%, 2/15/2017		15,000	15,672
6.25%, 12/1/2017		560,000	599,071
American International Group, Inc., 4.875%, 6/1/2022		200,000	213,185
American Tower Corp., (REIT), 3.5%, 1/31/2023		90,000	82,411
Banco de Credito del Peru, 144A, 4.25%, 4/1/2023		200,000	184,500
Banco Santander Brasil SA:			
144A, 4.625%, 2/13/2017		250,000	253,750
144A, 8.0%, 3/18/2016	BRL	300,000	123,692
Bank of America Corp., 3.3%, 1/11/2023		105,000	99,240
Barclays Bank PLC, 7.625%, 11/21/2022 (a)		250,000	245,312
BBVA Bancomer SA, 144A, 6.5%, 3/10/2021		200,000	210,000
BNP Paribas SA, 3.25%, 3/3/2023		450,000	413,663
CIT Group, Inc.:			
4.25%, 8/15/2017		495,000	497,475
5.0%, 5/15/2017		935,000	954,869
5.25%, 3/15/2018		10,000	10,275
CNH Capital LLC, 144A, 3.625%, 4/15/2018		100,000	95,250
Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, 3.95%, 11/9/2022		260,000	248,631
Development Bank of Kazakhstan JSC, Series 3, 6.5%, 6/3/2020		500,000	525,000
E*TRADE Financial Corp.:			
6.375%, 11/15/2019		140,000	142,100
6.75%, 6/1/2016		745,000	765,487
Ford Motor Credit Co., LLC:			
3.0%, 6/12/2017		200,000	200,422
5.875%, 8/2/2021		260,000	283,465
General Motors Financial Co., Inc., 144A, 3.25%, 5/15/2018 (a)		25,000	24,313
Glencore Funding LLC, 144A, 4.125%, 5/30/2023		100,000	89,188
Hartford Financial Services Group, Inc.:			
4.3%, 4/15/2043 (a)		410,000	355,116
6.0%, 1/15/2019		117,000	131,894
Host Hotels & Resorts LP, Series D, (REIT), 3.75%, 10/15/2023		110,000	100,886
ING Bank NV, 144A, 2.0%, 9/25/2015		375,000	378,180
International Lease Finance Corp.:			
3.875%, 4/15/2018		100,000	94,000
4.625%, 4/15/2021		90,000	82,800
6.25%, 5/15/2019		410,000	421,275
8.625%, 1/15/2022		10,000	11,500
8.75%, 3/15/2017		40,000	44,550
Intesa Sanpaolo SpA, 3.875%, 1/16/2018		200,000	192,042
Jefferies Group LLC, 5.125%, 1/20/2023 (a)		60,000	59,537
Loews Corp., 2.625%, 5/15/2023		65,000	59,123
Macquarie Bank Ltd., 144A, 3.45%, 7/27/2015		130,000	134,722
Morgan Stanley:			
3.75%, 2/25/2023		125,000	119,535
4.1%, 5/22/2023		85,000	78,533
MPT Operating Partnership LP, (REIT), 6.375%, 2/15/2022		10,000	10,500
Neuberger Berman Group LLC:			
144A, 5.625%, 3/15/2020		10,000	10,350
144A, 5.875%, 3/15/2022		550,000	561,000
Nordea Bank AB, 144A, 4.25%, 9/21/2022		375,000	369,966
OPB Finance Trust, Series C, 2.9%, 5/24/2023	CAD	330,000	298,434

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	Principal Amount ($)(c)	Value ($)
PNC Bank NA, 6.875%, 4/1/2018	300,000	359,808
Principal Financial Group, Inc., 3.3%, 9/15/2022	305,000	296,286
RCI Banque SA, 144A, 3.5%, 4/3/2018	100,000	99,508
Royal Bank of Scotland Group PLC, 6.1%, 6/10/2023 (a)	100,000	94,871
Santander U.S. Debt SA, 144A, 2.991%, 10/7/2013	500,000	502,851
Skandinaviska Enskilda Banken AB, 144A, 1.375%, 5/29/2018	552,000	531,742
SLM Corp., 5.5%, 1/25/2023 (a)	125,000	119,026
The Goldman Sachs Group, Inc., 3.625%, 1/22/2023 (a)	165,000	157,868
Turkiye Is Bankasi, 144A, 6.0%, 10/24/2022	250,000	244,375
Turkiye Vakiflar Bankasi Tao, 144A, 3.75%, 4/15/2018	250,000	235,000
Ventas Realty LP, (REIT), 2.7%, 4/1/2020	90,000	85,099
		12,517,348
Health Care 1.3%		
Agilent Technologies, Inc., 3.2%, 10/1/2022	200,000	185,407
Aviv Healthcare Properties LP, 7.75%, 2/15/2019	10,000	10,675
Biomet, Inc.:		
6.5%, 8/1/2020	85,000	87,603
6.5%, 10/1/2020 (a)	25,000	24,938
Community Health Systems, Inc.:		
5.125%, 8/15/2018	290,000	294,350
7.125%, 7/15/2020	170,000	175,100
Fresenius Medical Care U.S. Finance II, Inc.:		
144A, 5.625%, 7/31/2019	10,000	10,400
144A, 5.875%, 1/31/2022	15,000	15,788
Fresenius Medical Care U.S. Finance, Inc., 144A, 6.5%, 9/15/2018	10,000	10,875
HCA, Inc.:		
6.5%, 2/15/2020	880,000	952,050
7.5%, 2/15/2022	725,000	802,937
Hologic, Inc., 6.25%, 8/1/2020	40,000	41,475
IMS Health, Inc., 144A, 6.0%, 11/1/2020	60,000	61,050
Laboratory Corp. of America Holdings, 3.75%, 8/23/2022	140,000	133,733
Mallinckrodt International Finance SA, 144A, 4.75%, 4/15/2023	110,000	104,787
Physio-Control International, Inc., 144A, 9.875%, 1/15/2019	15,000	16,500
Sky Growth Acquisition Corp., 144A, 7.375%, 10/15/2020	40,000	41,000
Tenet Healthcare Corp.:		
144A, 4.375%, 10/1/2021	110,000	100,925
144A, 4.5%, 4/1/2021	10,000	9,325
6.25%, 11/1/2018	230,000	242,075

	Principal Amount ($)(c)	Value ($)
Zoetis, Inc., 144A, 3.25%, 2/1/2023	45,000	42,755
		3,363,748
Industrials 1.9%		
Accuride Corp., 9.5%, 8/1/2018	10,000	10,175
Aeropuertos Dominicanos Siglo XXI SA, 144A, 9.25%, 11/13/2019	250,000	250,625
Air Lease Corp., 4.75%, 3/1/2020	75,000	72,375
Alphabet Holding Co., Inc., 7.75%, 11/1/2017 (PIK)	50,000	51,250
BE Aerospace, Inc., 6.875%, 10/1/2020	185,000	199,800
Belden, Inc., 144A, 5.5%, 9/1/2022	85,000	83,512
Bombardier, Inc., 144A, 5.75%, 3/15/2022	628,000	623,290
Clean Harbors, Inc., 5.125%, 6/1/2021	65,000	65,487
DigitalGlobe, Inc., 144A, 5.25%, 2/1/2021	35,000	33,600
Ferreycorp SAA, 144A, 4.875%, 4/26/2020	200,000	188,000
FTI Consulting, Inc., 144A, 6.0%, 11/15/2022	50,000	50,625
Garda World Security Corp., 144A, 9.75%, 3/15/2017	5,000	5,204
GenCorp, Inc., 144A, 7.125%, 3/15/2021	185,000	191,475
Grupo KUO SAB De CV, 144A, 6.25%, 12/4/2022	200,000	204,750
Huntington Ingalls Industries, Inc., 6.875%, 3/15/2018	560,000	598,500
Ingersoll-Rand Global Holding Co., Ltd., 144A, 2.875%, 1/15/2019	20,000	19,730
Iron Mountain, Inc., 5.75%, 8/15/2024	60,000	56,250
JSC Georgian Railway, 144A, 7.75%, 7/11/2022	250,000	270,175
Kenan Advantage Group, Inc., 144A, 8.375%, 12/15/2018	100,000	104,000
Meritor, Inc., 6.75%, 6/15/2021	55,000	52,525
Navios Maritime Holdings, Inc., 8.875%, 11/1/2017	60,000	62,100
Navios South American Logistics, Inc., 144A, 9.25%, 4/15/2019	15,000	16,088
Nortek, Inc., 8.5%, 4/15/2021	155,000	165,850
Odebrecht Finance Ltd., 144A, 7.125%, 6/26/2042	250,000	242,500
Owens Corning, Inc., 4.2%, 12/15/2022	60,000	58,139
Ply Gem Industries, Inc., 9.375%, 4/15/2017	24,000	25,380
Titan International, Inc., 144A, 7.875%, 10/1/2017	35,000	36,750
Total System Services, Inc., 3.75%, 6/1/2023	80,000	74,281
TransDigm, Inc.:		
144A, 7.5%, 7/15/2021 (d)	100,000	102,250
7.75%, 12/15/2018	80,000	84,200
Transnet SOC Ltd., 144A, 4.0%, 7/26/2022	500,000	437,200
U.S. Airways Group, Inc., 6.125%, 6/1/2018	70,000	66,150

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		Principal Amount ($)(c)	Value ($)
United Rentals North America, Inc.:			
6.125%, 6/15/2023		10,000	9,950
7.375%, 5/15/2020		25,000	26,687
7.625%, 4/15/2022		270,000	292,275
Watco Companies LLC, 144A, 6.375%, 4/1/2023		40,000	39,800
			4,870,948
Information Technology 1.5%			
Alliance Data Systems Corp., 144A, 5.25%, 12/1/2017		60,000	61,800
CDW LLC, 8.5%, 4/1/2019		610,000	655,750
CyrusOne LP, 144A, 6.375%, 11/15/2022		25,000	25,625
EarthLink, Inc., 144A, 7.375%, 6/1/2020		70,000	67,200
Equinix, Inc.:			
4.875%, 4/1/2020		60,000	58,800
5.375%, 4/1/2023		175,000	171,500
7.0%, 7/15/2021		470,000	509,950
First Data Corp.:			
144A, 6.75%, 11/1/2020		365,000	371,387
144A, 7.375%, 6/15/2019		725,000	744,937
Fiserv, Inc., 3.5%, 10/1/2022		250,000	237,281
Freescale Semiconductor, Inc., 144A, 9.25%, 4/15/2018		305,000	328,638
Hewlett-Packard Co., 3.3%, 12/9/2016		200,000	207,610
Hughes Satellite Systems Corp.:			
6.5%, 6/15/2019		60,000	63,600
7.625%, 6/15/2021		190,000	201,875
IAC/InterActiveCorp., 144A, 4.75%, 12/15/2022		50,000	47,250
			3,753,203
Materials 2.3%			
Anglo American Capital PLC, 144A, 4.125%, 9/27/2022		500,000	472,238
Axiall Corp., 144A, 4.875%, 5/15/2023		15,000	14,250
Barrick Gold Corp., 144A, 2.5%, 5/1/2018		50,000	44,869
Bluescope Steel Ltd., 144A, 7.125%, 5/1/2018		40,000	40,600
BOE Intermediate Holding Corp., 144A, 9.0%, 11/1/2017 (PIK)		80,000	76,800
BOE Merger Corp., 144A, 9.5%, 11/1/2017 (PIK)		100,000	102,000
Cemex SAB de CV, 144A, 9.0%, 1/11/2018		200,000	210,000
Cia Minera Milpo SAA, 144A, 4.625%, 3/28/2023		200,000	182,500
Eagle Spinco, Inc., 144A, 4.625%, 2/15/2021		30,000	28,800
FMG Resources (August 2006) Pty Ltd.:			
144A, 6.0%, 4/1/2017 (a)		195,000	189,637
144A, 6.375%, 2/1/2016 (a)		250,000	249,687
144A, 6.875%, 4/1/2022 (a)		290,000	281,300
FQM Akubra, Inc.:			
144A, 7.5%, 6/1/2021		145,000	138,837
144A, 8.75%, 6/1/2020		85,000	86,913
Freeport-McMoRan Copper & Gold, Inc., 3.55%, 3/1/2022		220,000	199,839

		Principal Amount ($)(c)	Value ($)
GTL Trade Finance, Inc., 144A, 7.25%, 10/20/2017		200,000	216,000
Hexion U.S. Finance Corp.:			
6.625%, 4/15/2020		280,000	279,300
8.875%, 2/1/2018		155,000	158,100
Huntsman International LLC:			
4.875%, 11/15/2020 (a)		55,000	54,313
8.625%, 3/15/2021 (a)		250,000	274,375
IAMGOLD Corp., 144A, 6.75%, 10/1/2020		75,000	63,375
Kaiser Aluminum Corp., 8.25%, 6/1/2020		40,000	44,300
Metalloinvest Finance Ltd., 144A, 6.5%, 7/21/2016		200,000	206,000
Novelis, Inc., 8.75%, 12/15/2020		955,000	1,024,237
Polymer Group, Inc., 7.75%, 2/1/2019		255,000	265,200
PolyOne Corp., 144A, 5.25%, 3/15/2023		145,000	142,825
Polyus Gold International Ltd., 144A, 5.625%, 4/29/2020		200,000	194,000
Samarco Mineracao SA, 144A, 4.125%, 11/1/2022		200,000	179,000
Sealed Air Corp.:			
144A, 5.25%, 4/1/2023		15,000	14,588
144A, 8.125%, 9/15/2019		10,000	11,150
144A, 8.375%, 9/15/2021		10,000	11,300
Tronox Finance LLC, 144A, 6.375%, 8/15/2020		55,000	51,838
Turkiye Sise ve Cam Fabrikalari AS, 144A, 4.25%, 5/9/2020		200,000	182,000
Votorantim Overseas IV, 144A, 7.75%, 6/24/2020		250,000	279,375
			5,969,546
Telecommunication Services 4.5%			
America Movil SAB de CV, Series 12, 6.45%, 12/5/2022	MXN	2,000,000	149,481
CC Holdings GS V LLC, 3.849%, 4/15/2023		120,000	113,155
CenturyLink, Inc., Series V, 5.625%, 4/1/2020		25,000	25,250
Cincinnati Bell, Inc.:			
8.25%, 10/15/2017		100,000	104,250
8.375%, 10/15/2020		695,000	714,112
8.75%, 3/15/2018 (a)		350,000	350,437
Cricket Communications, Inc., 7.75%, 10/15/2020 (a)		685,000	657,600
Digicel Group Ltd.:			
144A, 8.25%, 9/30/2020		200,000	207,000
144A, 10.5%, 4/15/2018		200,000	212,000
Digicel Ltd., 144A, 8.25%, 9/1/2017		850,000	884,000
ERC Ireland Preferred Equity Ltd., 144A, 7.69%**, 2/15/2017 (PIK)*	EUR	120,439	0
Frontier Communications Corp.:			
7.125%, 1/15/2023 (a)		390,000	388,050
8.5%, 4/15/2020 (a)		810,000	893,025
Intelsat Jackson Holdings SA:			
144A, 5.5%, 8/1/2023		175,000	164,500
144A, 6.625%, 12/15/2022		70,000	67,900

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	Principal Amount ($)(c)	Value ($)
7.25%, 10/15/2020	690,000	724,500
7.5%, 4/1/2021	305,000	320,250
Intelsat Luxembourg SA:		
144A, 7.75%, 6/1/2021	165,000	166,650
144A, 8.125%, 6/1/2023	25,000	25,813
Level 3 Communications, Inc., 8.875%, 6/1/2019 (a)	205,000	213,200
Level 3 Financing, Inc.:		
7.0%, 6/1/2020	185,000	184,538
8.625%, 7/15/2020	450,000	479,250
MetroPCS Wireless, Inc.:		
6.625%, 11/15/2020	655,000	679,562
144A, 6.625%, 4/1/2023	70,000	71,225
Millicom International Cellular SA, 144A, 4.75%, 5/22/2020	200,000	190,052
SBA Communications Corp., 144A, 5.625%, 10/1/2019	50,000	49,500
Sprint Nextel Corp.:		
6.0%, 12/1/2016	820,000	865,100
6.0%, 11/15/2022	85,000	83,300
8.375%, 8/15/2017	210,000	235,725
9.125%, 3/1/2017	15,000	17,250
Telefonica Emisiones SAU, 4.57%, 4/27/2023	195,000	186,673
Telemar Norte Leste SA, 144A, 5.5%, 10/23/2020	200,000	186,000
tw telecom holdings, Inc., 5.375%, 10/1/2022	75,000	74,438
UPCB Finance III Ltd., 144A, 6.625%, 7/1/2020	370,000	382,950
Wind Acquisition Finance SA, 144A, 6.5%, 4/30/2020	50,000	49,625
Windstream Corp.:		
6.375%, 8/1/2023	60,000	56,100
7.0%, 3/15/2019	25,000	25,063
7.5%, 6/1/2022	40,000	40,800
7.5%, 4/1/2023	20,000	20,300
7.75%, 10/15/2020 (a)	1,100,000	1,138,500
7.75%, 10/1/2021	80,000	82,800
7.875%, 11/1/2017	130,000	142,675
		11,622,599

Utilities 1.0%

	Principal Amount ($)(c)	Value ($)
AES Corp.:		
4.875%, 5/15/2023 (a)	25,000	23,313
8.0%, 10/15/2017	45,000	50,625
8.0%, 6/1/2020	30,000	34,200
American Electric Power Co., Inc., Series F, 2.95%, 12/15/2022	200,000	186,179
Calpine Corp.:		
144A, 7.5%, 2/15/2021	761,000	812,368
144A, 7.875%, 7/31/2020	40,000	43,400
DTE Energy Co., 7.625%, 5/15/2014	81,000	85,803
Dubai Electricity & Water Authority, 144A, 8.5%, 4/22/2015	250,000	271,250
Electricite de France SA, 144A, 5.25%, 1/29/2049	100,000	95,600
Energy Future Intermediate Holding Co., LLC, 11.0%, 10/1/2021	141,000	151,223
Instituto Costarricense de Electricidad, 144A, 6.95%, 11/10/2021	200,000	210,500
Mexico Generadora de Energia S de RL, 144A, 5.5%, 12/6/2032	250,000	235,000
Oncor Electric Delivery Co., LLC, 4.1%, 6/1/2022	120,000	123,813
PPL Energy Supply LLC, 4.6%, 12/15/2021	250,000	254,406
		2,577,680
Total Corporate Bonds (Cost $65,131,330)		**64,269,736**

Asset-Backed 0.3%

Credit Card Receivables 0.2%

	Principal Amount ($)(c)	Value ($)
Citibank Omni Master Trust, "A14", Series 2009-A14A, 144A, 2.943%**, 8/15/2018	550,000	**564,829**

Miscellaneous 0.1%

	Principal Amount ($)(c)	Value ($)
ARES CLO Ltd., "D", Series 2012-3A, 144A, 4.958%**, 1/17/2024	250,000	**249,611**
Total Asset-Backed (Cost $819,418)		**814,440**

Mortgage-Backed Securities Pass-Throughs 3.7%

	Principal Amount ($)(c)	Value ($)
Federal Home Loan Mortgage Corp., 6.0%, 3/1/2038	14,449	15,668
Federal National Mortgage Association:		
3.5%, 1/1/2042 (d)	1,000,000	1,015,625
4.5%, 9/1/2035	29,376	31,110
6.0%, 1/1/2024	40,303	44,452
6.5%, with various maturities from 5/1/2017 until 1/1/2038	11,749	12,746
8.0%, 9/1/2015	15,335	16,062
Government National Mortgage Association:		
3.0%, 10/1/2042 (d)	3,000,000	2,968,125
4.0%, with various maturities from 7/1/2040 until 3/1/2041 (d)	5,000,000	5,250,703
5.5%, 9/20/2040	216,232	236,765
Total Mortgage-Backed Securities Pass-Throughs (Cost $9,660,686)		**9,591,256**

Commercial Mortgage-Backed Securities 0.9%

	Principal Amount ($)(c)	Value ($)
Banc of America Large Loan, Inc., "HLTN", Series 2010-HLTN, 144A, 2.493%**, 11/15/2015	446,860	447,207
Bear Stearns Commercial Mortgage Securities, Inc., "A4", Series 2007- PW16, 5.905%**, 6/11/2040	66,000	74,553
Del Coronado Trust, "M", Series 2013-HDMZ, 144A, 5.193%**, 3/15/2018	120,000	120,624
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"C", Series 2012-HSBC, 144A, 4.021%, 7/5/2032	380,000	367,850
"A4", Series 2007-C1, 5.716%, 2/15/2051	225,000	251,270

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	Principal Amount ($)(c)	Value ($)
LB-UBS Commercial Mortgage Trust, "A4", Series 2007-C6, 5.858%, 7/15/2040	260,000	287,930
WF-RBS Commercial Mortgage Trust, "A5", Series 2013-C14, 3.337%, 6/15/2046	750,000	715,028
Total Commercial Mortgage-Backed Securities (Cost $2,316,593)		**2,264,462**

Collateralized Mortgage Obligations 2.0%

	Principal Amount ($)(c)	Value ($)
Federal Home Loan Mortgage Corp.:		
"HI", Series 3979, Interest Only, 3.0%, 12/15/2026	803,189	70,084
"IK", Series 4048, Interest Only, 3.0%, 5/15/2027	856,832	109,315
"ZB", Series 4183, 3.0%, 3/15/2043	1,007,519	870,319
"P", Series 3808, 4.0%, 11/15/2038	1,000,000	1,044,211
"LI", Series 3720, Interest Only, 4.5%, 9/15/2025	1,689,757	283,512
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038	809,775	98,819
"H", Series 2278, 6.5%, 1/15/2031	146	162
Federal National Mortgage Association:		
"WO", Series 2013-27, Principal Only, Zero Coupon, 12/25/2042	220,000	103,625
"I", Series 2003-84, Interest Only, 6.0%, 9/25/2033	319,783	85,497
"PI", Series 2006-20, Interest Only, 6.487%***, 11/25/2030	511,611	92,642
Government National Mortgage Association:		
"QI", Series 2011-112, Interest Only, 4.0%, 5/16/2026	1,061,575	97,144
"NI", Series 2011-80, Interest Only, 4.5%, 5/16/2038	1,574,772	135,600
"GP", Series 2010-67, 4.5%, 3/20/2039	250,000	271,399
"BI", Series 2010-30, Interest Only, 4.5%, 7/20/2039	167,167	42,921
"ND", Series 2010-130, 4.5%, 8/16/2039	600,000	651,209
"MI", Series 2009-76, Interest Only, 5.0%, 3/20/2035	278,777	9,705
"IQ", Series 2011-18, Interest Only, 5.5%, 1/16/2039	494,554	44,979
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	851,868	138,764
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	862,441	138,380
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	626,990	115,665
"AI", Series 2007-38, Interest Only, 6.268%***, 6/16/2037	144,427	19,582
Residential Funding Mortgage Securities I, Inc., "M1", Series 2003-S17, 5.5%, 9/25/2033	609,922	586,103
Total Collateralized Mortgage Obligations (Cost $4,825,649)		**5,009,637**

Government & Agency Obligations 5.2%

Other Government Related (e) 1.2%

		Principal Amount ($)(c)	Value ($)
European Investment Bank:			
144A, 4.6%, 1/30/2037	CAD	1,000,000	972,625
6.0%, 8/6/2020	AUD	500,000	485,883
KFW, 1.875%, 6/13/2018	CAD	835,000	777,057
Queensland Treasury Corp., Series 23, 4.25%, 7/21/2023	AUD	1,060,000	926,860
			3,162,425

Sovereign Bonds 1.0%

		Principal Amount ($)(c)	Value ($)
Government of Japan, Series 144, 1.5%, 3/20/2033	JPY	90,000,000	878,456
Government of Ukraine, 144A, 6.58%, 11/21/2016		500,000	463,750
Republic of Belarus, REG S, 8.75%, 8/3/2015		100,000	100,250
Republic of Croatia, REG S, 144A, 6.25%, 4/27/2017		250,000	262,103
Republic of Turkey, 3.25%, 3/23/2023		250,000	218,125
Russian Federation:			
Series 6204, 7.5%, 3/15/2018	RUB	2,900,000	91,023
Series 6207, 8.15%, 2/3/2027	RUB	8,700,000	271,939
United Mexican States:			
Series M, 7.75%, 5/29/2031	MXN	2,280,000	194,462
Series M 20, 8.5%, 5/31/2029	MXN	1,140,000	104,870
			2,584,978

U.S. Government Sponsored Agencies 0.7%

	Principal Amount ($)(c)	Value ($)
Federal Home Loan Mortgage Corp., 2.375%, 1/13/2022	305,000	295,154
Federal National Mortgage Association:		
0.875%, 5/21/2018	550,000	532,578
3.0%, 11/15/2027	1,000,000	915,788
		1,743,520

U.S. Treasury Obligations 2.3%

	Principal Amount ($)(c)	Value ($)
U.S. Treasury Bills:		
0.1%****, 9/5/2013 (f)	801,000	800,970
U.S. Treasury Note, 0.75%, 6/15/2014	5,000,000	5,026,365
		5,827,335
Total Government & Agency Obligations (Cost $13,937,207)		**13,318,258**

Loan Participations and Assignments 0.8%

Senior Loan** 0.0%

	Principal Amount ($)(c)	Value ($)
Chesapeake Energy Corp., Term Loan, 5.75%, 12/1/2017	95,000	**96,366**

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

	Principal Amount ($)(c)	Value ($)
Sovereign Loans 0.8%		
Bank of Moscow, 144A, 6.699%, 3/11/2015	250,000	263,112
Gazprom Neft OAO, 144A, 4.375%, 9/19/2022	250,000	228,963
Gazprom OAO, 144A, 9.25%, 4/23/2019	100,000	120,500
National JSC Naftogaz of Ukraine, 9.5%, 9/30/2014	250,000	249,375
RZD Capital PLC, 5.739%, 4/3/2017	250,000	265,000
TMK OAO, 144A, 6.75%, 4/3/2020	200,000	185,500
Uralkali OJSC, 144A, 3.723%, 4/30/2018 (a)	200,000	192,250
Vimpel Communications, 144A, 9.125%, 4/30/2018	200,000	229,500
VTB Bank OJSC, 144A, 6.0%, 4/12/2017	250,000	260,000
Total Loan Participations and Assignments (Cost $2,134,514)		**2,090,566**
Municipal Bonds and Notes 0.2%		
Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018 (Cost $413,253)	413,253	**429,213**
Convertible Bond 0.1%		
Materials		
GEO Specialty Chemicals, Inc., 7.5%, 3/31/2015 (PIK) (Cost $205,565)	209,283	**324,138**
Preferred Securities 0.1%		
Financials 0.1%		
Farm Credit Bank of Texas, Series 1, 7.561%, 12/15/2013 (g)	218,000	**218,000**
Materials 0.0%		
Hercules, Inc., 6.5%, 6/30/2029	40,000	**34,800**
Total Preferred Securities (Cost $239,295)		**252,800**

	Units	Value ($)
Other Investments 0.0%		
Consumer Discretionary		
AOT Bedding Super Holdings LLC* (h) (Cost $2,000)	5	**17,388**

	Contracts	Value ($)
Call Options Purchased 0.1%		
Options on Exchange-Traded Futures Contracts 0.0%		
10 Year U.S. Treasury Note Future Expiration Date 8/23/2013, Strike Price $132.5	38	**1,781**

	Contract Amount	Value ($)
Options on Interest Rate Swap Contracts 0.1%		
Pay Fixed Rate — 3.583% – Receive Floating — LIBOR Swap Expiration Date 5/11/2026, Option Expiration Date 5/9/2016[1]	2,300,000	**145,475**
Total Call Options Purchased (Cost $127,429)		**147,256**

	Shares	Value ($)
Securities Lending Collateral 9.1%		
Daily Assets Fund Institutional, 0.10% (i) (j) (Cost $23,372,464)	23,372,464	**23,372,464**
Cash Equivalents 6.6%		
Central Cash Management Fund, 0.07% (i) (Cost $17,095,777)	17,095,777	**17,095,777**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $270,487,627)†	112.6	**289,459,209**
Other Assets and Liabilities, Net	(12.6)	**(32,282,568)**
Net Assets	100.0	**257,176,641**

The following table represents bonds that are in default:

Security	Coupon	Maturity Date	Principal Amount		Cost ($)	Value ($)
ERC Ireland Preferred Equity Ltd.*	7.69%	2/15/2017	EUR	120,439	165,016	0
Fontainebleau Las Vegas Holdings LLC*	11.0%	6/15/2015	USD	25,000	25,000	0
					190,016	**0**

* 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, 2013.

*** These securities are shown at their current rate as of June 30, 2013.

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

† The cost for federal income tax purposes was $271,050,745. At June 30, 2013, net unrealized appreciation for all securities based on tax cost was $18,408,464. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $24,688,967 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $6,280,503.

(a) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of securities loaned at June 30, 2013 amounted to $22,576,516, which is 8.8% 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.

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

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

(e) Government-backed debt issued by financial companies or government sponsored enterprises.

(f) At June 30, 2013, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(g) Date shown is call date; not a maturity date for the perpetual preferred securities.

(h) 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	17,388	0.01

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

(j) 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.

CLO: Collateralized Loan Obligation

CVA: Certificaten Van Aandelen (Certificate of Stock)

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.

PIK: Denotes that all or a portion of the income is paid in-kind in the form of additional principal.

Principal Only: Principal Only (PO) bonds represent the "principal only" portion of payments on a pool of underlying mortgages or mortgage-backed securities.

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 and Government National Mortgage Association issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

At June 30, 2013, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
10 Year Canadian Government Bond	CAD	9/19/2013	5	624,750	(25,222)
10 Year U.S. Treasury Note	USD	9/19/2013	28	3,543,750	(23,207)
5 Year U.S. Treasury Note	USD	9/30/2013	4	484,188	(7,978)
Federal Republic of Germany Euro-Bund	EUR	9/6/2013	5	921,047	(18,167)
Ultra Long U.S. Treasury Bond	USD	9/19/2013	4	543,375	(23,508)
Total unrealized depreciation					**(98,082)**

At June 30, 2013, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year U.S. Treasury Note	USD	9/19/2013	460	58,218,750	2,164,258
Ultra Long U.S. Treasury Bond	USD	9/19/2013	5	736,563	(12,288)
Total net unrealized appreciation					**2,151,970**

At June 30, 2013, open written options contracts were as follows:

Options on Exchange-Traded Futures Contracts	Contracts	Expiration Date	Strike Price ($)	Premiums Received ($)	Value ($) (k)
Put Options					
10 Year U.S. Treasury Note Future	48	8/23/2013	130.0	40,756	**(174,000)**

(k) Unrealized depreciation on written options on exchange-traded futures contracts at June 30, 2013 was $133,244.

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

Options on Interest Rate Swap Contracts	Swap Effective/ Expiration Date	Contract Amount	Option Expiration Date	Premiums Received ($)	Value ($) (l)
Call Options					
Receive Fixed — 4.083% – Pay Floating — LIBOR	5/11/2016 5/11/2026	2,300,000[1]	5/9/2016	78,200	(103,264)
Receive Fixed — 5.132% – Pay Floating — LIBOR	3/17/2016 3/17/2026	2,100,000[2]	3/15/2016	15,172	(39,311)
Receive Fixed — 4.064% – Pay Floating — LIBOR	5/13/2014 5/13/2044	2,100,000[2]	5/19/2014	15,488	(58,129)
Receive Fixed — 5.132% – Pay Floating — LIBOR	3/17/2016 3/17/2026	2,100,000[3]	3/15/2016	24,780	(39,311)
Total Call Options				**133,640**	**(240,015)**
Put Options					
Pay Fixed — 1.132% – Receive Floating — LIBOR	3/17/2016 3/17/2026	2,100,000[2]	3/15/2016	15,172	(1,861)
Pay Fixed — 2.385% – Receive Floating — LIBOR	3/31/2014 3/31/2044	2,100,000[4]	3/27/2014	28,665	(6,701)
Pay Fixed — 2.423% – Receive Floating — LIBOR	3/20/2014 3/20/2044	2,100,000[5]	3/18/2014	30,240	(7,613)
Pay Fixed — 1.132% – Receive Floating — LIBOR	3/17/2016 3/17/2026	2,100,000[3]	3/15/2016	5,355	(1,861)
Pay Fixed — 2.064% – Receive Floating — LIBOR	3/20/2014 3/20/2044	2,100,000[2]	5/9/2014	15,488	(2,330)
Total Put Options				**94,920**	**(20,366)**
Total				**228,560**	**(260,381)**

(l) Unrealized depreciation on written options on interest rate swap contracts at June 30, 2013 was $31,821.

As of June 30, 2013, open credit default swap contracts sold were as follows:

Effective/ Expiration Date	Notional Amount ($) (m)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (n)	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Appreciation ($)
9/20/2012 12/20/2017	125,000[6]	5.0%	General Motors Corp., 3.3%, 12/20/2017, BB+	15,546	8,311	**7,235**

(m) 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, if any.

(n) The quality ratings represent the higher of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings.

At June 30, 2013, open interest rate swap contracts sold 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) ($)	Unrealized Appreciation (Depreciation) ($)
6/3/2013 6/3/2025	2,100,000[2]	Floating — LIBOR	Fixed — 3.0%	19,515	—	19,515
5/1/2014 5/1/2024	3,500,000[4]	Fixed — 2.156%	Floating — LIBOR	272,477	(593)	273,070
5/1/2014 5/1/2044	500,000[4]	Floating — LIBOR	Fixed — 2.922%	(61,676)	829	(62,505)
Total net unrealized appreciation						**230,080**

Counterparties:

1 Bank of America
2 Nomura International PLC
3 BNP Paribas
4 Barclays Bank PLC
5 JPMorgan Chase Securities, Inc.
6 UBS AG

LIBOR: London Interbank Offered Rate

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

As of June 30, 2013, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
NOK	9,197,292	EUR	1,200,000	7/5/2013	48,033	Citigroup, Inc.
USD	8,149	NOK	49,678	7/5/2013	28	Citigroup, Inc.
GBP	800,000	USD	1,221,125	7/5/2013	4,390	JPMorgan Chase Securities, Inc.
AUD	500,000	USD	520,922	7/5/2013	63,747	Nomura International PLC
AUD	550,000	USD	566,751	7/9/2013	64,008	Nomura International PLC
JPY	80,000,000	USD	823,216	7/10/2013	16,577	Nomura International PLC
EUR	600,000	USD	794,742	7/11/2013	13,724	JPMorgan Chase Securities, Inc.
GBP	500,000	USD	777,548	7/11/2013	17,120	BNP Paribas
SGD	1,600,000	USD	1,286,036	7/11/2013	23,685	JPMorgan Chase Securities, Inc.
EUR	600,000	USD	796,109	7/11/2013	15,091	Barclays Bank PLC
AUD	1,300,000	NZD	1,551,472	7/12/2013	13,410	Citigroup, Inc.
CZK	15,000,000	USD	770,100	7/12/2013	19,534	Bank Of America N.A.
CZK	14,900,000	USD	771,395	7/12/2013	25,833	BNP Paribas
USD	776,601	ZAR	7,700,000	7/15/2013	880	Barclays Bank PLC
NZD	1,000,000	USD	796,967	7/15/2013	22,739	Citigroup, Inc.
JPY	50,000,000	USD	504,293	7/16/2013	133	Nomura International PLC
JPY	50,000,000	USD	511,589	7/16/2013	7,429	Bank Of America N.A.
EUR	800,000	USD	1,065,849	7/17/2013	24,467	Nomura International PLC
GBP	700,000	USD	1,097,029	7/17/2013	32,472	JPMorgan Chase Securities, Inc.
USD	5,749	EUR	4,418	7/19/2013	2	Citigroup, Inc.
EUR	549,550	USD	732,800	7/19/2013	17,430	Citigroup, Inc.
JPY	70,000,000	USD	710,345	7/24/2013	4,500	Barclays Bank PLC
USD	505,861	ZAR	5,200,000	7/25/2013	18,429	Barclays Bank PLC
USD	728,583	AUD	800,000	7/26/2013	1,768	JPMorgan Chase Securities, Inc.
CAD	800,000	USD	760,541	7/26/2013	299	Nomura International PLC
AUD	800,000	USD	739,142	7/26/2013	8,791	BNP Paribas
CAD	1,000,000	USD	978,926	7/31/2013	28,735	JPMorgan Chase Securities, Inc.
AUD	1,071,800	USD	1,040,724	7/31/2013	62,595	JPMorgan Chase Securities, Inc.
CAD	659,544	USD	639,001	7/31/2013	12,309	Nomura International PLC
JPY	30,000,000	USD	307,148	8/1/2013	4,634	Nomura International PLC
USD	1,007,112	JPY	100,000,000	8/2/2013	1,271	JPMorgan Chase Securities, Inc.
Total unrealized appreciation					**574,063**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
USD	808,526	JPY	80,000,000	7/5/2013	(1,903)	Nomura International PLC
USD	1,245,708	GBP	800,000	7/5/2013	(28,973)	BNP Paribas
JPY	80,000,000	USD	798,495	7/5/2013	(8,128)	Nomura International PLC
USD	523,125	AUD	500,000	7/5/2013	(65,951)	Barclays Bank PLC
EUR	1,200,000	NOK	9,147,614	7/5/2013	(56,210)	UBS AG
USD	827,605	JPY	80,000,000	7/10/2013	(20,967)	Barclays Bank PLC
USD	777,720	GBP	500,000	7/11/2013	(17,292)	Barclays Bank PLC
USD	1,272,644	SGD	1,600,000	7/11/2013	(10,294)	Nomura International PLC
USD	1,597,224	EUR	1,200,000	7/11/2013	(35,189)	Barclays Bank PLC
NZD	963,602	AUD	800,000	7/12/2013	(15,105)	Nomura International PLC
NZD	597,794	AUD	500,000	7/12/2013	(5,989)	BNP Paribas
USD	1,559,639	CZK	29,900,000	7/12/2013	(63,510)	Barclays Bank PLC
USD	7,688	NZD	9,923	7/12/2013	(3)	Barclays Bank PLC
USD	510,204	INR	30,000,000	7/15/2013	(6,539)	Citigroup, Inc.
USD	804,435	NZD	1,000,000	7/15/2013	(30,207)	JPMorgan Chase Securities, Inc.
ZAR	7,700,000	USD	767,969	7/15/2013	(9,512)	UBS AG

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

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
INR	30,000,000	USD	492,773	7/15/2013	(10,892)	Citigroup, Inc.
USD	1,008,657	JPY	100,000,000	7/16/2013	(337)	Nomura International PLC
USD	1,100,750	GBP	700,000	7/17/2013	(36,194)	UBS AG
USD	1,057,846	EUR	800,000	7/17/2013	(16,464)	Nomura International PLC
USD	769,742	ZAR	7,600,000	7/19/2013	(2,803)	JPMorgan Chase Securities, Inc.
ZAR	7,600,000	USD	761,403	7/19/2013	(5,535)	JPMorgan Chase Securities, Inc.
NOK	4,763,579	EUR	600,000	7/24/2013	(2,568)	BNP Paribas
USD	716,336	JPY	70,000,000	7/24/2013	(10,491)	Nomura International PLC
ZAR	5,200,000	USD	513,782	7/25/2013	(10,508)	Citigroup, Inc.
TWD	22,700,000	USD	755,156	7/29/2013	(2,397)	JPMorgan Chase Securities, Inc.
JPY	90,431,642	USD	910,486	7/31/2013	(1,405)	Nomura International PLC
USD	777,205	ZAR	7,700,000	8/1/2013	(1,641)	Citigroup, Inc.
ZAR	7,700,000	USD	769,915	8/1/2013	(5,649)	Citigroup, Inc.
USD	302,877	JPY	30,000,000	8/1/2013	(363)	UBS AG
USD	1,732,788	MXN	22,400,000	8/19/2013	(11,396)	JPMorgan Chase Securities, Inc.
Total unrealized depreciation					**(494,415)**	

Currency Abbreviations

AUD	Australian Dollar	MXN	Mexican Peso
BRL	Brazilian Real	NOK	Norwegian Krone
CAD	Canadian Dollar	NZD	New Zealand Dollar
CZK	Czech Koruna	RUB	Russian Ruble
EUR	Euro	SGD	Singapore Dollar
GBP	British Pound	TWD	Taiwan Dollar
INR	Indian Rupee	USD	United States Dollar
JPY	Japanese Yen	ZAR	South African Rand

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, 2013 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 (o)				
Consumer Discretionary	$ 5,469,327	$ 7,106,180	$ 0	$ 12,575,507
Consumer Staples	18,767,325	13,771,738	—	32,539,063
Energy	12,448,162	740,695	—	13,188,857
Financials	10,154,969	6,316,037	—	16,471,006
Health Care	3,480,689	19,869,777	—	23,350,466
Industrials	—	9,944,706	0	9,944,706
Information Technology	13,734,553	2,873,238	—	16,607,791
Materials	8,057,430	2,473,600	6,632	10,537,662
Telecommunication Services	—	4,973,254	—	4,973,254
Utilities	7,482,173	2,777,739	—	10,259,912
Warrants (o)	—	—	13,594	13,594
Fixed Income Investments (o)				
Corporate Bonds	—	64,269,736	0	64,269,736
Asset Backed	—	814,440	—	814,440
Mortgage-Backed Securities Pass-Throughs	—	9,591,256	—	9,591,256
Commercial Mortgage-Backed Securities	—	2,264,462	—	2,264,462
Collateralized Mortgage Obligations	—	5,009,637	—	5,009,637
Government & Agency Obligations	—	13,318,258	—	13,318,258
Loan Participations and Assignments	—	2,090,566	—	2,090,566
Municipal Bonds and Notes	—	429,213	—	429,213
Convertible Bonds	—	—	324,138	324,138
Preferred Securities	—	252,800	—	252,800
Other Investments	—	—	17,388	17,388
Short-Term Investments (o)	40,468,241	—	—	40,468,241
Derivatives (p)				
Futures Contracts	2,164,258	—	—	2,164,258
Purchased Options	1,781	145,475	—	147,256
Credit Default Swap Contracts	—	7,235	—	7,235
Interest Rate Swap Contracts	—	292,585	—	292,585
Forward Foreign Currency Exchange Contracts	—	574,063	—	574,063
Total	**$122,228,908**	**$169,906,690**	**$ 361,752**	**$292,497,350**

Liabilities				
Derivatives (p)				
Futures Contracts	$ (110,370)	$ —	$ —	$ (110,370)
Written Options	(174,000)	(260,381)	—	(434,381)
Interest Rate Swap Contracts	—	(62,505)	—	(62,505)
Forward Foreign Currency Exchange Contracts	—	(494,415)	—	(494,415)
Total	**$ (284,370)**	**$ (817,301)**	**$ —**	**$ (1,101,671)**

During the period ended June 30, 2013, the amount of transfers between Level 2 and Level 3 was $16. Investments were transferred from Level 2 to Level 3 because of the lack of observable market data due to a decrease in market activity.

Transfers between price levels are recognized at the beginning of the reporting period.

(o) See Investment Portfolio for additional detailed categorizations.

(p) Derivatives include value of options purchased, unrealized appreciation (depreciation) on open futures contracts, credit default swap contracts, interest rate swap contracts and forward foreign currency exchange 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, 2013 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $230,019,386) — including $22,576,516 of securities loaned	$ 248,990,968
Investment in Daily Assets Fund Institutional (cost $23,372,464)*	23,372,464
Investment in Central Cash Management Fund (cost $17,095,777)	17,095,777
Total investments in securities, at value (cost $270,487,627)	289,459,209
Cash	49,996
Foreign currency, at value (cost $268,008)	263,138
Receivable for investments sold	133,057
Receivable for investments sold — when-issued/ delayed delivery securities	3,863,487
Receivable for Fund shares sold	2,010
Dividends receivable	330,434
Interest receivable	1,221,001
Receivable for variation margin on futures contracts	36,553
Unrealized appreciation on swap contracts	299,820
Unrealized appreciation on forward foreign currency exchange contracts	574,063
Upfront payments paid on swap contracts	9,140
Foreign taxes recoverable	96,353
Other assets	2,238
Total assets	296,340,499
Liabilities	
Payable upon return of securities loaned	23,372,464
Payable for investments purchased	962,375
Payable for investments purchased — when-issued/delayed delivery securities	13,495,007
Payable for Fund shares redeemed	135,550
Options written, at value (premium received $269,316)	434,381
Unrealized depreciation on swap contracts	62,505
Unrealized depreciation on forward foreign currency exchange contracts	494,415
Upfront payments received on swap contracts	593
Accrued management fee	79,105
Accrued Trustees' fees	619
Other accrued expenses and payables	126,844
Total liabilities	39,163,858
Net assets, at value	**$ 257,176,641**
Net Assets Consist of	
Undistributed net investment income	4,767,730
Net unrealized appreciation (depreciation) on:	
Investments	18,971,582
Swap contracts	237,315
Futures	2,053,888
Foreign currency	65,926
Written options	(165,065)
Accumulated net realized gain (loss)	(6,030,595)
Paid-in capital	237,275,860
Net assets, at value	**$ 257,176,641**
Class A	
Net Asset Value, offering and redemption price per share ($257,176,641 ÷ 10,480,859 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 24.54**

* Represents collateral on securities loaned.

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

Statement of Operations

for the six months ended June 30, 2013 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $261,725)	$	3,090,760
Interest		2,426,188
Income distributions — Central Cash Management Fund		2,696
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		115,397
Total income		5,635,041
Expenses:		
Management fee		484,558
Administration fee		131,468
Services to shareholders		956
Custodian fee		34,877
Professional fees		43,944
Reports to shareholders		32,581
Trustees' fees and expenses		6,261
Other		29,473
Total expenses		764,118
Net investment income		**4,870,923**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		258,289
Swap contracts		86,358
Futures		(456,915)
Written options		90,646
Foreign currency		(326,274)
		(347,896)
Change in net unrealized appreciation (depreciation) on:		
Investments		5,983,143
Swap contracts		209,806
Futures		2,076,162
Written options		(272,306)
Foreign currency		90,171
		8,086,976
Net gain (loss)		**7,739,080**
Net increase (decrease) in net assets resulting from operations	**$**	**12,610,003**

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, 2013 (Unaudited)	Year Ended December 31, 2012
Operations:		
Net investment income (loss)	$ 4,870,923	$ 6,577,137
Net realized gain (loss)	(347,896)	37,219,792
Change in net unrealized appreciation (depreciation)	8,086,976	(11,355,694)
Net increase (decrease) in net assets resulting from operations	12,610,003	32,441,235
Distributions to shareholders from:		
Net investment income:		
Class A	(5,498,634)	(4,191,340)
Total distributions	(5,498,634)	(4,191,340)
Fund share transactions:		
Class A		
Proceeds from shares sold	4,735,892	5,666,347
Shares issued to shareholders in reinvestment of distributions	5,498,634	4,191,340
Payments for shares redeemed	(20,567,513)	(41,768,743)
Net increase (decrease) in net assets from Class A share transactions	(10,332,987)	(31,911,056)
Increase (decrease) in net assets	(3,221,618)	(3,661,161)
Net assets at beginning of period	260,398,259	264,059,420
Net assets at end of period (including undistributed net investment income of $4,767,730 and $5,395,441, respectively)	**$ 257,176,641**	**$ 260,398,259**

Other Information		
Class A		
Shares outstanding at beginning of period	10,896,924	12,288,136
Shares sold	190,593	246,623
Shares issued to shareholders in reinvestment of distributions	220,917	186,116
Shares redeemed	(827,575)	(1,823,951)
Net increase (decrease) in Class A shares	(416,065)	(1,391,212)
Shares outstanding at end of period	10,480,859	10,896,924

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

Financial Highlights

Class A	Six Months Ended 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$23.90**	**$21.49**	**$22.13**	**$20.52**	**$17.35**	**$24.81**
Income (loss) from investment operations:						
Net investment income[a]	.46	.57	.46	.39	.44	.61
Net realized and unrealized gain (loss)	.70	2.20	(.75)	1.88	3.43	(7.20)
Total from investment operations	1.16	2.77	(.29)	2.27	3.87	(6.59)
Less distributions from:						
Net investment income	(.52)	(.36)	(.35)	(.66)	(.70)	(.87)
Net asset value, end of period	**$24.54**	**$23.90**	**$21.49**	**$22.13**	**$20.52**	**$17.35**
Total Return (%)	4.84**	12.98	(1.42)	11.22	23.43	(27.33)[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	257	260	264	308	319	307
Ratio of expenses before expense reductions (%)	.58*	.59	.58	.65	.60	.64
Ratio of expenses after expense reductions (%)	.58*	.59	.58	.65	.60	.62
Ratio of net investment income (%)	3.71*	2.48	2.09	1.89	2.40	2.83
Portfolio turnover rate (%)	50**	188	109	203	207	263

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 (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. 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 prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer with which the option was traded. Over-the-counter written or purchased options 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. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of June 30, 2013, the Fund had securities on loan with a gross value of $22,576,516. The value of the related collateral, $23,372,464, exceeded the value of the securities loaned at period end.

Loan Participations and Assignments. Loan participations and assignments are portions of loans originated by banks and sold in pieces to investors. These 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 are generally in the form of Assignments but the Fund may also invest in Participants. 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, the Fund may be subject to taxes imposed by the governments of countries in which it invests and are generally based on income and/or capital gains earned or repatriated. 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. Tax liabilities realized as a result of security sales are reflected as a component of net realized gain/loss on investments.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses incurred post-enactment 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, 2012, the Fund had a net tax basis capital loss carryforward of approximately $5,132,000 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, 2012 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 from net investment income of the Fund, if any, are 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, 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 based upon the relative net assets or other appropriate measures.

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

Interest Rate Swap Contracts. For the six months ended June 30, 2013, the Fund entered into interest rate swap transactions to gain exposure to different parts of the yield curve while managing overall duration. 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, 2013 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $6,100,000 to $22,800,000.

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. The Fund may enter into credit default swap contracts to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer or to hedge against the risk of a credit event on debt 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. 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. For the six months ended June 30, 2013, the Fund entered into credit default swap contracts to gain exposure to the underlying issuer's credit quality characteristics.

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, 2013 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, the investment in credit default swap contracts sold had a total notional value generally indicative of a range from $125,000 to $1,925,000.

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, 2013, the Fund entered into interest rate futures to gain exposure to different parts of the yield curve while managing overall duration. The Fund also entered into interest rate 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, 2013 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $1,012,000 to $6,117,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $4,480,000 to $58,955,000.

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, 2013, 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, 2013 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, 2013, the investment in written option contracts had a total value generally indicative of a range from approximately $74,000 to $434,000, and purchased option contracts had a total value generally indicative of a range from approximately $83,000 to $147,000.

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, 2013, 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.

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, 2013 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $6,931,000 to $23,982,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $3,551,000 to $20,433,000. 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 $6,419,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2013 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)	$ 147,256	$ —	$ 292,585	$ 2,164,258	$ 2,604,099
Credit Contracts (a)	—	—	7,235	—	7,235
Foreign Exchange Contracts (c)	—	574,063	—	—	574,063
	$ 147,256	**$ 574,063**	**$ 299,820**	**$ 2,164,258**	**$ 3,185,397**

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	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a) (b)	$ (434,381)	$ —	$ (62,505)	$ (110,370)	$ (607,256)
Foreign Exchange Contracts (c)	—	(494,415)	—	—	(494,415)
	$ (434,381)	**$ (494,415)**	**$ (62,505)**	**$ (110,370)**	**$ (1,101,671)**

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, 2013 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)	$ (37,156)	$ 90,646	$ —	$ 12,033	$ (456,915)	$ (391,392)
Credit Contracts (a)	—	—	—	74,325	—	74,325
Foreign Exchange Contracts (b)	—	—	(276,007)	—	—	(276,007)
	$ (37,156)	**$ 90,646**	**$ (276,007)**	**$ 86,358**	**$ (456,915)**	**$ (593,074)**

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)	$ 57,291	$ (272,306)	$ —	$ 267,097	$ 2,076,162	$ 2,128,244
Credit Contracts (a)	—	—	—	(57,291)	—	(57,291)
Foreign Exchange Contracts (b)	—	—	103,401	—	—	103,401
	$ 57,291	**$ (272,306)**	**$ 103,401**	**$ 209,806**	**$ 2,076,162**	**$ 2,174,354**

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)

As of June 30, 2013, the Fund has transactions subject to enforceable master netting agreements. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by derivative type, including any collateral exposure, is included in the following tables:

Counterparty	Gross Amounts of Assets Presented in the Statement of Assets and Liabilities (a)	Financial Instruments and Derivatives Available for Offset	Collateral Received	Net Amount of Derivative Assets
Bank of America	$ 172,438	$ (103,264)	$ —	$ 69,174
Barclays Bank PLC	311,970	(272,118)	—	39,852
BNP Paribas	51,744	(51,744)	—	—
Citigroup, Inc.	101,642	(35,229)	—	66,413
JPMorgan Chase Securities, Inc.	168,640	(59,951)	—	108,689
Nomura International PLC	205,689	(165,758)	—	39,931
UBS AG	7,235	(7,235)	—	—
Exchange Traded Futures and Options (b)	2,166,039	—	—	2,166,039
	$ 3,185,397	**$ (695,299)**	**$ —**	**$ 2,490,098**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities (a)	Financial Instruments and Derivatives Available for Offset	Collateral Pledged	Net Amount of Derivative Liabilities
Bank of America	$ 103,264	$ (103,264)	$ —	$ —
Barclays Bank PLC	272,118	(272,118)	—	—
BNP Paribas	78,702	(51,744)	—	26,958
Citigroup, Inc.	35,229	(35,229)	—	—
JPMorgan Chase Securities, Inc.	59,951	(59,951)	—	—
Nomura International PLC	165,758	(165,758)	—	—
UBS AG	102,279	(7,235)	—	95,044
Exchange Traded Futures and Options (b)	284,370	—	—	284,370
	$ 1,101,671	**$ (695,299)**	**$ —**	**$ 406,372**

(a) Forward foreign currency exchange contracts, swap contracts and over-the-counter purchased options and written options are netted.

(b) Includes financial instruments (purchased options or futures) which are not subject to a master netting arrangement, or another similar arrangement.

C. Purchases and Sales of Securities

During the six months ended June 30, 2013, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $131,448,445 and $146,787,952, respectively. Purchases and sales of U.S. Treasury obligations aggregated $0 and $5,000,691, respectively.

For the six months ended June 30, 2013, transactions for written options on interest rate swap contracts and futures contracts were as follows:

	Contract Amount	Premium
Outstanding, beginning of period	8,200,020	$ 181,719
Options written	16,800,048	191,116
Options closed	(5,900,000)	(95,750)
Options expired	(20)	(7,769)
Outstanding, end of period	**19,100,048**	**$ 269,316**

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.

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, 2013, 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.

For the period from January 1, 2013 through September 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 shares at 0.68%.

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, 2013, the Administration Fee was $131,468, of which $21,440 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, 2013, the amounts charged to the Fund by DISC aggregated $196, 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, 2013, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $8,175, of which $7,204 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 Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and DWS Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and DWS Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that DWS Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in DWS Variable NAV Money Fund.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the six months ended June 30, 2013, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $12,811.

E. Ownership of the Fund

At June 30, 2013, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding shares of the Fund, each owning 44%, 21% and 16%.

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, 2013.

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, 2013 to June 30, 2013).

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, 2013

Actual Fund Return	**Class A**
Beginning Account Value 1/1/13	$1,000.00
Ending Account Value 6/30/13	$1,048.40
Expenses Paid per $1,000*	$ 2.95

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/13	$1,000.00
Ending Account Value 6/30/13	$1,021.92
Expenses Paid per $1,000*	$ 2.91

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratio	**Class A**
DWS Variable Series II — DWS Global Income Builder VIP	.58%

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.

For an analysis of the fees associated with an investment in the Fund or similar funds, please refer to http://apps.finra.org/fundanalyzer/1/fa.aspx.

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 17, 2012

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 2012, 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, 2010 and 2011.

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 103 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 "fallout" 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 considered how aggregated DWS Fund performance measures relative to appropriate peers had varied by asset class and over time.

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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VS2GIB-3 (R-028382-2 8/13)

JUNE 30, 2013

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. Smaller company stocks tend to be more volatile than medium-sized or large company stocks. Stocks may decline in value. See the prospectus for details.

DWS Investments is part of the Deutsche Asset & Wealth Management division of Deutsche Bank AG.

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

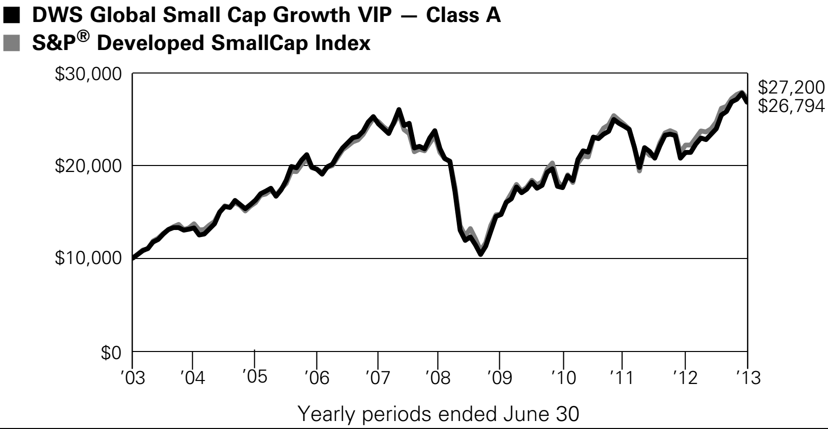
Performance Summary

June 30, 2013 (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, 2013 are 1.11% and 1.43% 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 comprises the stocks representing the lowest 15% of float-adjusted market cap in each developed country. It Is a subset of the S&P® Global BMI, a comprehensive, rules-based index measuring global stock market performance.

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	$11,199	$12,546	$15,251	$12,307	$26,794
	Average annual total return	11.99%	25.46%	15.11%	4.24%	10.36%
S&P Developed SmallCap Index	Growth of $10,000	$11,032	$12,266	$15,463	$12,723	$27,200
	Average annual total return	10.32%	22.66%	15.64%	4.93%	10.52%

DWS Global Small Cap Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$11,193	$12,516	$15,148	$12,132	$26,125
	Average annual total return	11.93%	25.16%	14.85%	3.94%	10.08%
S&P Developed SmallCap Index	Growth of $10,000	$11,032	$12,266	$15,463	$12,723	$27,200
	Average annual total return	10.32%	22.66%	15.64%	4.93%	10.52%

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)	6/30/13	12/31/12
Common Stocks	98%	99%
Cash Equivalents	2%	1%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	6/30/13	12/31/12
United States	44%	42%
Continental Europe	20%	24%
Asia (excluding Japan)	12%	10%
United Kingdom	11%	9%
Japan	9%	8%
Canada	2%	3%
Latin America	1%	1%
Australia	0%	1%
Middle East	—	1%
Other	1%	1%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	6/30/13	12/31/12
Industrials	26%	27%
Consumer Discretionary	23%	21%
Financials	16%	13%
Health Care	14%	14%
Information Technology	7%	9%
Energy	6%	7%
Consumer Staples	6%	6%
Materials	2%	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

Joseph Axtell, CFA

Portfolio Manager

Investment Portfolio

June 30, 2013 (Unaudited)

	Shares	Value ($)
Common Stocks 97.1%		
Australia 0.3%		
Austal Ltd.* (Cost $764,055)	576,906	**397,343**
Austria 0.1%		
AMS AG (Cost $186,042)	1,974	**145,732**
Bermuda 0.8%		
Lazard Ltd. "A" (a) (Cost $799,420)	32,102	**1,032,079**
Brazil 0.6%		
Fleury SA (Cost $1,141,734)	99,543	**811,922**
Canada 1.2%		
Americas Petrogas, Inc.*	149,587	126,588
SunOpta, Inc.*	184,529	1,400,575
(Cost $1,921,510)		**1,527,163**
China 1.6%		
Charm Communications, Inc. (ADR)	106,708	482,320
Minth Group Ltd.	1,045,047	1,641,540
(Cost $1,486,336)		**2,123,860**
Cyprus 0.9%		
ProSafe SE (Cost $1,032,641)	138,127	**1,210,058**
Denmark 0.8%		
GN Store Nord AS (Cost $708,985)	55,244	**1,042,987**
France 1.6%		
Flamel Technologies SA (ADR)*	156,961	965,310
JC Decaux SA (b)	45,026	1,227,293
(Cost $3,020,804)		**2,192,603**
Germany 4.5%		
Fresenius Medical Care AG & Co. KGaA	10,009	709,111
Gerresheimer AG	14,879	859,844
M.A.X. Automation AG	190,057	1,038,866
Rational AG	4,084	1,368,331
United Internet AG (Registered)	69,777	1,966,614
(Cost $2,325,200)		**5,942,766**
Gibraltar 0.3%		
Bwin.Party Digital Entertainment PLC (Cost $971,421)	260,980	**445,648**
Hong Kong 3.1%		
K Wah International Holdings Ltd.	3,383,062	1,539,866
REXLot Holdings Ltd.	19,870,685	1,301,199
Techtronic Industries Co., Ltd.	558,848	1,333,565
(Cost $2,741,443)		**4,174,630**
Indonesia 1.5%		
PT Arwana Citramulia Tbk	3,250,896	1,045,895
PT Ciputra Property Tbk	8,149,270	969,234
(Cost $1,884,482)		**2,015,129**
Ireland 4.1%		
C&C Group PLC	237,410	1,287,231
Paddy Power PLC	23,961	2,055,994
Ryanair Holdings PLC	229,466	2,132,193
(Cost $1,598,542)		**5,475,418**

	Shares	Value ($)
Italy 0.6%		
Prysmian SpA (Cost $755,286)	41,990	**780,710**
Japan 8.5%		
Ai Holdings Corp.	89,568	789,363
Avex Group Holdings, Inc.	50,083	1,578,119
Hajime Construction Co., Ltd. (b)	29,262	1,628,809
Kusuri No Aoki Co., Ltd.	20,104	1,325,746
Medical System Network Co., Ltd.	113,898	483,918
MISUMI Group, Inc.	30,937	845,886
Nippon Seiki Co., Ltd.	119,125	1,538,759
OSG Corp.	28,060	421,294
Sumikin Bussan Corp.	50,187	137,648
United Arrows Ltd.	38,930	1,630,992
Universal Entertainment Corp.	55,322	978,891
(Cost $8,591,988)		**11,359,425**
Luxembourg 0.4%		
L'Occitane International SA (Cost $356,205)	181,565	**488,156**
Malaysia 1.5%		
Hartalega Holdings Bhd.	661,740	1,338,166
Tune Ins Holdings Bhd.*	1,159,601	677,401
(Cost $1,363,457)		**2,015,567**
Netherlands 4.0%		
Brunel International NV	27,592	1,161,651
Chicago Bridge & Iron Co. NV (c)	20,728	1,236,633
Koninklijke Vopak NV	23,438	1,381,933
SBM Offshore NV*	91,819	1,537,005
(Cost $2,592,005)		**5,317,222**
Panama 0.6%		
Banco Latinoamericano de Comercio Exterior SA "E" (Cost $827,404)	34,592	**774,515**
Philippines 1.9%		
Alliance Global Group, Inc.	2,642,914	1,413,832
GT Capital Holdings, Inc.	51,907	951,160
House of Investments, Inc.	914,640	158,623
(Cost $1,737,279)		**2,523,615**
Singapore 1.9%		
Lian Beng Group Ltd.	2,616,511	1,069,978
Yongnam Holdings Ltd.	5,236,440	1,421,135
(Cost $1,939,414)		**2,491,113**
Switzerland 1.5%		
Dufry AG (Registered)*	11,004	1,331,431
OC Oerlikon Corp. AG (Registered)	61,341	723,724
(Cost $2,106,354)		**2,055,155**
Thailand 0.4%		
Malee Sampran Factory PCL (Foreign Registered) (Cost $975,784)	483,098	**529,593**
United Kingdom 10.7%		
ARM Holdings PLC	45,571	551,400
Ashmore Group PLC	227,745	1,185,568
Babcock International Group PLC	140,923	2,372,712

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

	Shares	Value ($)
Burberry Group PLC	42,593	878,671
Crest Nicholson Holdings PLC*	142,199	691,701
Domino's Pizza Group PLC	106,167	1,085,759
Essentra PLC	100,949	1,074,752
Hargreaves Lansdown PLC	90,725	1,220,231
HellermannTyton Group PLC*	317,895	1,251,666
IG Group Holdings PLC	124,645	1,102,840
John Wood Group PLC	84,863	1,048,465
Nanoco Group PLC*	289,978	582,086
Rotork PLC	31,784	1,285,837
(Cost $8,234,102)		**14,331,688**
United States 43.7%		
Advance Auto Parts, Inc.	11,760	954,559
Aecom Technology Corp.*	33,549	1,066,523
Aeropostale, Inc.*	50,024	690,331
Affiliated Managers Group, Inc.*	9,257	1,517,593
Altra Holdings, Inc.	28,488	780,001
Applied Industrial Technologies, Inc.	21,610	1,044,411
Ascena Retail Group, Inc.* (b)	31,888	556,446
athenahealth, Inc.*	8,408	712,326
BE Aerospace, Inc.*	31,443	1,983,424
Blount International, Inc.*	56,289	665,336
BorgWarner, Inc.*	12,292	1,058,956
Cardtronics, Inc.*	25,979	717,020
Catamaran Corp.*	24,515	1,194,371
Centene Corp.*	16,447	862,810
Cognex Corp.	16,251	734,870
CONMED Corp.	23,733	741,419
Deckers Outdoor Corp.* (b)	17,006	858,973
Derma Sciences, Inc.*	58,282	778,065
DFC Global Corp.*	59,624	823,407
Dresser-Rand Group, Inc.*	20,965	1,257,481
Encore Capital Group, Inc.* (b)	36,520	1,209,177
Furiex Pharmaceuticals, Inc.*	18,193	619,836
Green Mountain Coffee Roasters, Inc.* (b)	22,093	1,658,301
Hain Celestial Group, Inc.* (b)	10,151	659,510
Harris Corp.	18,951	933,337
Haynes International, Inc.	15,185	726,906
HeartWare International, Inc.*	10,980	1,044,308
Hi-Tech Pharmacal Co., Inc.	42,001	1,394,433
Jack in the Box, Inc.*	18,802	738,731
Jarden Corp.*	37,094	1,622,863
Leucadia National Corp.	43,364	1,137,004
Manitowoc Co., Inc. (b)	81,547	1,460,507
MICROS Systems, Inc.* (b)	15,314	660,799
NxStage Medical, Inc.*	61,958	884,760
Oasis Petroleum, Inc.*	18,235	708,794
Ocwen Financial Corp.*	33,204	1,368,669
Oil States International, Inc.*	11,540	1,069,066
Pacira Pharmaceuticals, Inc.*	85,413	2,476,977
PTC, Inc.*	30,002	735,949
Roadrunner Transportation Systems, Inc.*	32,995	918,581
Rosetta Resources, Inc.*	13,311	565,984
Schweitzer-Mauduit International, Inc.	13,806	688,643
Sears Hometown & Outlet Stores, Inc.*	28,577	1,249,386
Signature Bank*	10,463	868,638
Stericycle, Inc.*	6,553	723,648
Sunshine Heart, Inc.*	110,980	595,963
Tenneco, Inc.*	25,558	1,157,266
The Bancorp., Inc.*	29,870	447,751
Thoratec Corp.*	35,971	1,126,252
TIBCO Software, Inc.*	40,313	862,698
TiVo, Inc.*	70,178	775,467
Tristate Capital Holdings, Inc.*	56,467	776,421
United Rentals, Inc.* (b)	22,588	1,127,367
Urban Outfitters, Inc.*	29,154	1,172,574
WABCO Holdings, Inc.*	19,527	1,458,472
Waddell & Reed Financial, Inc. "A"	32,588	1,417,578
WageWorks, Inc.*	31,914	1,099,437
Zions Bancorp. (b)	41,897	1,209,985
(Cost $39,873,988)		**58,350,360**
Total Common Stocks (Cost $89,622,780)		**129,554,457**

Warrants 0.0%

Malaysia

Hartalega Holdings Bhd., Expiration Date 5/29/2015* (Cost $0)	68,733	**51,980**

Securities Lending Collateral 9.2%

Daily Assets Fund Institutional, 0.10% (d) (e) (Cost $12,312,833)	12,312,833	**12,312,833**

Cash Equivalents 2.0%

Central Cash Management Fund, 0.07% (d) (Cost $2,712,251)	2,712,251	**2,712,251**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $104,647,864)†	108.3	**144,631,521**
Other Assets and Liabilities, Net	(8.3)	**(11,124,992)**
Net Assets	100.0	**133,506,529**

* Non-income producing security.

† The cost for federal income tax purposes was $105,203,586. At June 30, 2013, net unrealized appreciation for all securities based on tax cost was $39,427,935. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $46,032,502 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $6,604,567.

(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 securities loaned at June 30, 2013 amounted to $11,906,419, which is 8.9% of net assets.

(c) Listed on the New York Stock Exchange.

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

(e) 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, 2013 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				
Australia	$ —	$ 397,343	$ —	$ 397,343
Austria	—	145,732	—	145,732
Bermuda	1,032,079	—	—	1,032,079
Brazil	811,922	—	—	811,922
Canada	1,527,163	—	—	1,527,163
China	482,320	1,641,540	—	2,123,860
Cyprus	—	1,210,058	—	1,210,058
Denmark	—	1,042,987	—	1,042,987
France	965,310	1,227,293	—	2,192,603
Germany	—	5,942,766	—	5,942,766
Gibraltar	—	445,648	—	445,648
Hong Kong	—	4,174,630	—	4,174,630
Indonesia	—	2,015,129	—	2,015,129
Ireland	—	5,475,418	—	5,475,418
Italy	—	780,710	—	780,710
Japan	—	11,359,425	—	11,359,425
Luxembourg	—	488,156	—	488,156
Malaysia	—	2,067,547	—	2,067,547
Netherlands	1,236,633	4,080,589	—	5,317,222
Panama	774,515	—	—	774,515
Philippines	—	2,523,615	—	2,523,615
Singapore	—	2,491,113	—	2,491,113
Switzerland	—	2,055,155	—	2,055,155
Thailand	—	529,593	—	529,593
United Kingdom	—	14,331,688	—	14,331,688
United States	58,350,360	—	—	58,350,360
Short-Term Investments (f)	15,025,084	—	—	15,025,084
Total	**$ 80,205,386**	**$ 64,426,135**	**$ —**	**$144,631,521**

During the period ended June 30, 2013, the amount of transfers between Level 3 and Level 2 was $51,980. The investment was transferred from Level 3 to Level 2 as a result of the availability of a pricing source supported by observable inputs.

Transfers between price levels are recognized at the beginning of the reporting period.

(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, 2013 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost 89,622,780) — including $11,906,419 of securities loaned	$	129,606,437
Investment in Daily Assets Fund Institutional (cost $12,312,833)*		12,312,833
Investment in Central Cash Management Fund (cost $2,712,251)		2,712,251
Total investments in securities, at value (cost $104,647,864)		144,631,521
Foreign currency, at value (cost $177,616)		174,814
Receivable for investments sold		966,435
Receivable for Fund shares sold		83,351
Dividends receivable		151,608
Interest receivable		2,750
Foreign taxes recoverable		76,112
Other assets		964
Total assets		146,087,555
Liabilities		
Payable upon return of securities loaned		12,312,833
Payable for investments purchased		37,827
Payable for Fund shares redeemed		92,872
Accrued management fee		61,010
Accrued Trustees' fees		408
Other accrued expenses and payables		76,076
Total liabilities		12,581,026
Net assets, at value	**$**	**133,506,529**
Net Assets Consist of		
Undistributed net investment income		279,453
Net unrealized appreciation (depreciation) on:		
Investments		39,983,657
Foreign currency		(1,935)
Accumulated net realized gain (loss)		6,658,530
Paid-in capital		86,586,824
Net assets, at value	**$**	**133,506,529**
Class A		
Net Asset Value, offering and redemption price per share ($131,493,968 ÷ 9,221,877 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**14.26**
Class B		
Net Asset Value, offering and redemption price per share ($2,012,561 ÷ 143,739 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**14.00**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2013 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $56,310)	$	921,139
Income distributions — Central Cash Management Fund		1,295
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		41,950
Total income		964,384
Expenses:		
Management fee		598,640
Administration fee		67,263
Services to shareholders		1,432
Distribution service fee (Class B)		2,496
Record keeping fee (Class B)		38
Custodian fee		29,083
Professional fees		33,925
Reports to shareholders		16,743
Trustees' fees and expenses		2,896
Other		8,239
Total expenses before expense reductions		760,755
Expense reductions		(126,350)
Total expenses after expense reductions		634,405
Net investment income (loss)		**329,979**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		7,288,193
Foreign currency		(11,688)
		7,276,505
Change in net unrealized appreciation (depreciation) on:		
Investments		7,492,010
Foreign currency		(7,273)
		7,484,737
Net gain (loss)		**14,761,242**
Net increase (decrease) in net assets resulting from operations	**$**	**15,091,221**

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

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2013 (Unaudited)	Year Ended December 31, 2012
Operations:		
Net investment income (loss)	$ 329,979	$ 860,631
Net realized gain (loss)	7,276,505	9,539,908
Change in net unrealized appreciation (depreciation)	7,484,737	7,657,855
Net increase (decrease) in net assets resulting from operations	15,091,221	18,058,394
Distributions to shareholders from:		
Net investment income:		
Class A	(881,158)	(847,848)
Class B	(8,337)	(8,192)
Net realized gains:		
Class A	(9,356,181)	(6,623,008)
Class B	(145,558)	(104,904)
Total distributions	(10,391,234)	(7,583,952)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,384,027	3,854,918
Reinvestment of distributions	10,237,339	7,470,856
Payments for shares redeemed	(10,445,518)	(21,145,077)
Net increase (decrease) in net assets from Class A share transactions	3,175,848	(9,819,303)
Class B		
Proceeds from shares sold	154,180	79,415
Reinvestment of distributions	153,895	113,096
Payments for redeemed	(208,247)	(365,396)
Net increase (decrease) in net assets from Class B share transactions	99,828	(172,885)
Increase (decrease) in net assets	7,975,663	482,254
Net assets at beginning of period	125,530,866	125,048,612
Net assets at end of period (including undistributed net investment income of $279,453 and $838,969, respectively)	**$ 133,506,529**	**$ 125,530,866**

Other Information		
Class A		
Shares outstanding at beginning of period	8,977,791	9,718,286
Shares sold	231,269	294,057
Shares issued to shareholders in reinvestment of distributions	718,410	561,297
Shares redeemed	(705,593)	(1,595,849)
Net increase (decrease) in Class A shares	244,086	(740,495)
Shares outstanding at end of period	**9,221,877**	**8,977,791**
Class B		
Shares outstanding at beginning of period	136,607	150,330
Shares sold	10,576	6,256
Shares issued to shareholders in reinvestment of distributions	11,000	8,640
Shares redeemed	(14,444)	(28,619)
Net increase (decrease) in Class B shares	7,132	(13,723)
Shares outstanding at end of period	**143,739**	**136,607**

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

Financial Highlights

Class A	Six Months Ended 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$13.78**	**$12.67**	**$14.28**	**$11.32**	**$ 7.79**	**$18.28**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.04	.09	.08	.05	.04	.20[c]
Net realized and unrealized gain (loss)	1.61	1.83	(1.45)	2.96	3.64	(8.18)
Total from investment operations	1.65	1.92	(1.37)	3.01	3.68	(7.98)
Less distributions from:						
Net investment income	(.10)	(.09)	(.24)	(.05)	(.15)	(.04)
Net realized gains	(1.07)	(.72)	—	—	—	(2.47)
Total distributions	(1.17)	(.81)	(.24)	(.05)	(.15)	(2.51)
Net asset value, end of period	**$14.26**	**$13.78**	**$12.67**	**$14.28**	**$11.32**	**$ 7.79**
Total Return (%)[b]	11.99**	15.37	(9.90)	26.64	48.20	(49.96)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	131	124	123	158	139	117
Ratio of expenses before expense reductions (%)	1.13*	1.11	1.12	1.12	1.11	1.11
Ratio of expenses after expense reductions (%)	.94*	.98	1.00	1.04	.99	.99
Ratio of net investment income (loss) (%)	.49*	.69	.57	.42	.47	1.53[c]
Portfolio turnover rate (%)	19**	36	31	39	53	21

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 per share and 0.37% of average daily net assets for the year ended December 31, 2008.
* Annualized
** Not annualized

Class B	Six Months Ended 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$13.52**	**$12.45**	**$14.03**	**$11.11**	**$ 7.65**	**$18.03**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.03	.06	.05	.03	.02	.16[c]
Net realized and unrealized gain (loss)	1.58	1.79	(1.43)	2.90	3.57	(8.07)
Total from investment operations	1.61	1.85	(1.38)	2.93	3.59	(7.91)
Less distributions from:						
Net investment income	(.06)	(.06)	(.20)	(.01)	(.13)	—
Net realized gains	(1.07)	(.72)	—	—	—	(2.47)
Total distributions	(1.13)	(.78)	(.20)	(.01)	(.13)	(2.47)
Net asset value, end of period	**$14.00**	**$13.52**	**$12.45**	**$14.03**	**$11.11**	**$ 7.65**
Total Return (%)[b]	11.93**	15.01	(10.08)	26.38	47.66	(50.16)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	2	2	2	2	7	5
Ratio of expenses before expense reductions (%)	1.33*	1.43	1.38	1.34	1.42	1.42
Ratio of expenses after expense reductions (%)	1.14*	1.23	1.25	1.26	1.30	1.30
Ratio of net investment income (loss) (%)	.30*	.44	.32	.20	.16	1.21[c]
Portfolio turnover rate (%)	19**	36	31	39	53	21

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 per share and 0.37% of average daily net assets for the year ended December 31, 2008.
* 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, 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. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of June 30, 2013, the Fund had securities on loan with a gross value of $11,906,419. The value of the related collateral, $12,312,833, exceeded the value of the securities loaned at period end.

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, the Fund may be subject to taxes imposed by the governments of countries in which it invests and are generally based on income and/or capital gains earned or repatriated. 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. Tax liabilities realized as a result of security sales are reflected as a component of net realized gain/loss on investments.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2012 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 from net investment income of the Fund, if any, are 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 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 based upon the relative net assets or other appropriate measures.

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, 2013, purchases and sales of investment securities (excluding short-term investments) aggregated $25,596,576 and $34,678,044, 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, 2013 through April 30, 2014, 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	.94%
Class B	1.19%

Accordingly, for the six months ended June 30, 2013, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $126,136, and the amount charged aggregated $472,504, which was equivalent to an annualized effective rate of 0.70% 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, 2013, the Administration Fee was $67,263, of which $11,211 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, 2013, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	**Total Aggregated**	**Waived**	**Unpaid**
Class A	$ 214	$ 214	$ —
Class B	71	—	71
	$ 285	**$ 214**	**$ 71**

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, 2013, the Distribution Service Fee aggregated $2,496, of which $426 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, 2013, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $7,784, all of which 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 Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and DWS Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and DWS Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that DWS Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in DWS Variable NAV Money Fund.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the six months ended June 30, 2013, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $4,661.

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 50%, 16% and 10%.

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, 2013.

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, 2013 to June 30, 2013).

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, 2013

Actual Fund Return	Class A	Class B
Beginning Account Value 1/1/13	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,119.90	$1,119.30
Expenses Paid per $1,000*	$ 4.94	$ 5.99

Hypothetical 5% Fund Return	Class A	Class B
Beginning Account Value 1/1/13	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,020.13	$1,019.14
Expenses Paid per $1,000*	$ 4.71	$ 5.71

* 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 181 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	Class A	Class B
DWS Variable Series I — DWS Global Small Cap Growth VIP	.94%	1.14%

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.

For an analysis of the fees associated with an investment in the Fund or similar funds, please refer to http://apps.finra.org/fundanalyzer/1/fa.aspx.

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 17, 2012

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 2012, 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, 2010 and 2011.

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 103 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 "fallout" 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 considered how aggregated DWS Fund performance measures relative to appropriate peers had varied by asset class and over time.

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
(800) 621-1148

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JUNE 30, 2013

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. 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 the Deutsche Asset & Wealth Management division of Deutsche Bank AG.

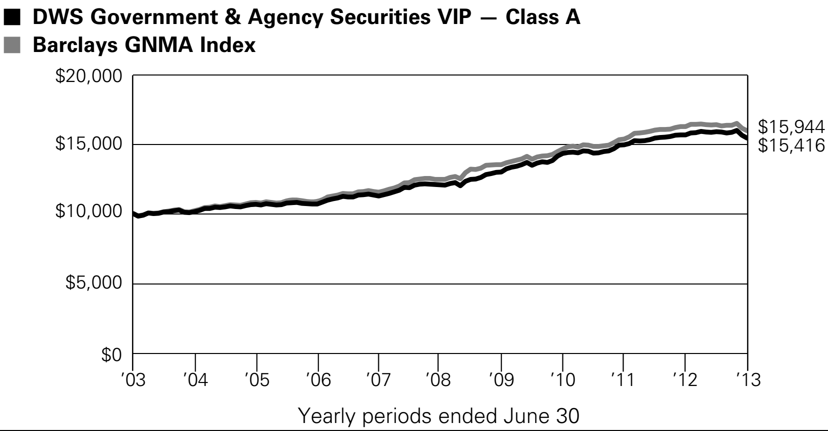
Performance Summary

June 30, 2013 (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, 2013 are 0.68% and 1.03% 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



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	$9,713	$9,844	$10,759	$12,781	$15,416
	Average annual total return	–2.87%	–1.56%	2.47%	5.03%	4.42%
Barclays GNMA Index	Growth of $10,000	$9,732	$9,808	$10,899	$12,805	$15,944
	Average annual total return	–2.68%	–1.92%	2.91%	5.07%	4.78%

DWS Government & Agency Securities VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$9,709	$9,817	$10,653	$12,574	$14,867
	Average annual total return	–2.91%	–1.83%	2.13%	4.69%	4.05%
Barclays GNMA Index	Growth of $10,000	$9,732	$9,808	$10,899	$12,805	$15,944
	Average annual total return	–2.68%	–1.92%	2.91%	5.07%	4.78%

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)	**6/30/13**	**12/31/12**
Mortgage-Backed Securities Pass-Throughs	79%	67%
Collateralized Mortgage Obligations	12%	15%
Government & Agency Obligations	8%	17%
Options Purchased	1%	0%
Cash Equivalents	0%	1%
	100%	100%

Coupons*	**6/30/13**	**12/31/12**
Less than 4.5%	50%	35%
4.5%–5.49%	27%	37%
5.5%–6.49%	20%	24%
6.5%–7.49%	3%	3%
7.5% and Greater	0%	1%
	100%	100%

Interest Rate Sensitivity	**6/30/13**	**12/31/12**
Effective Maturity	10.0 years	7.0 years
Effective Duration	6.0 years	5.5 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 Manager

William Chepolis, CFA

Portfolio Manager

	Principal Amount ($)	Value ($)
Mortgage-Backed Securities Pass-Throughs 94.6%		
Federal Home Loan Mortgage Corp.:		
3.0%, 9/1/2042 (a)	5,000,000	4,873,440
3.5%, 1/1/2042 (a)	11,000,000	11,145,234
Federal National Mortgage Association:		
3.0%, 10/1/2042 (a)	5,000,000	4,889,062
3.5%, 1/1/2042 (a)	14,000,000	14,218,750
Government National Mortgage Association:		
3.0%, 10/1/2042 (a)	1,000,000	989,375
3.5%, with various maturities from 12/1/2041 until 3/20/2043 (a)	2,622,665	2,721,003
4.0%, with various maturities from 2/15/2040 until 6/20/2043 (a)	10,580,354	11,182,720
4.5%, with various maturities from 6/20/2033 until 2/20/2043 (a)	8,235,554	8,876,355
4.55%, 1/15/2041	494,500	527,187
4.625%, 5/15/2041	197,654	213,408
5.0%, with various maturities from 11/20/2032 until 4/15/2042	18,168,209	19,710,203
5.5%, with various maturities from 10/15/2032 until 7/20/2040	12,001,010	13,202,631
6.0%, with various maturities from 7/15/2014 until 5/15/2040	10,247,463	11,352,488
6.5%, with various maturities from 4/15/2031 until 2/15/2039	2,095,001	2,356,125
7.0%, with various maturities from 2/20/2027 until 11/15/2038	329,136	375,657
7.5%, 10/20/2031	8,019	9,440
Total Mortgage-Backed Securities Pass-Throughs (Cost $107,246,189)		**106,643,078**
Collateralized Mortgage Obligations 14.6%		
Federal Home Loan Mortgage Corp.:		
"OA", Series 3179, Principal Only, Zero Coupon, 7/15/2036	340,042	305,184
"KO", Series 4180, Principal Only, Zero Coupon, 1/15/2043	1,533,311	1,008,089
"KB", Series 4144, 2.5%, 12/15/2042	214,837	173,400
"YI", Series 3936, Interest Only, 3.0%, 6/15/2025	136,503	7,391
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025	1,458,503	105,029
"WI", Series 3939, Interest Only, 3.0%, 10/15/2025	543,611	28,892
"EI", Series 3953, Interest Only, 3.0%, 11/15/2025	750,393	54,374
"IO", Series 3974, Interest Only, 3.0%, 12/15/2025	232,891	21,916
"DI", Series 4010, Interest Only, 3.0%, 2/15/2027	191,990	17,202
"IP", Series 4046, Interest Only, 3.0%, 5/15/2027	503,694	71,657
"IK", Series 4048, Interest Only, 3.0%, 5/15/2027	1,713,665	218,630
"IA", Series 3800, Interest Only, 3.5%, 12/15/2022	540,207	6,535
"IK", Series 3754, Interest Only, 3.5%, 6/15/2025	1,224,152	97,051
"DZ", Series 4199, 3.5%, 5/15/2043	234,538	208,441
"NI", Series 3657, Interest Only, 4.5%, 8/15/2027	615,648	27,245
"22", Series 243, Interest Only, 4.741%*, 6/15/2021	825,348	58,419
"PI", Series 2535, Interest Only, 6.0%, 9/15/2032	286,521	15,864
"MI", Series 3871, Interest Only, 6.0%, 4/15/2040	205,555	34,107
"SJ", Series 3501, Interest Only, 6.258%*, 1/15/2039	2,028,989	347,243
"A", Series 172, Interest Only, 6.5%, 1/1/2024	26,319	3,902
"DS", Series 3199, Interest Only, 6.958%*, 8/15/2036	2,442,483	425,927
"S", Series 2416, Interest Only, 7.908%*, 2/15/2032	345,798	72,450
"ST", Series 2411, Interest Only, 8.558%*, 6/15/2021	1,125,622	129,427
"KS", Series 2064, Interest Only, 9.9%*, 5/15/2022	348,903	71,199
Federal National Mortgage Association:		
"DI", Series 2011-136, Interest Only, 3.0%, 1/25/2026	223,498	20,208
"LZ", Series 2013-45, 3.0%, 5/25/2043	1,005,006	811,958
"HI", Series 2010-123, Interest Only, 3.5%, 3/25/2024	457,114	32,569
"KI", Series 2011-72, Interest Only, 3.5%, 3/25/2025	1,419,144	73,467
"IO", Series 2012-146, Interest Only, 3.5%, 1/25/2043	2,207,108	528,664
"KZ", Series 2013-66, 3.5%, 7/25/2043	908,534	859,700
"25", Series 351, Interest Only, 4.5%, 5/1/2019	215,330	18,639
"HI", Series 2009-77, Interest Only, 4.5%, 9/25/2027	263,097	7,059
"IN", Series 2003-49, Interest Only, 4.75%, 3/25/2018	1,401,231	72,057
"21", Series 334, Interest Only, 5.0%, 3/1/2018	100,703	7,512
"20", Series 334, Interest Only, 5.0%, 3/1/2018	148,214	11,061
"23", Series 339, Interest Only, 5.0%, 7/1/2018	219,880	15,115
"26", Series 381, Interest Only, 5.0%, 12/25/2020	69,690	5,563
"ZA", Series 2008-24, 5.0%, 4/25/2038	682,227	747,445
"30", Series 381, Interest Only, 5.5%, 11/25/2019	381,093	35,941
"PI", Series 2009-14, Interest Only, 5.5%, 3/25/2024	660,391	87,972
"PJ", Series 2004-46, Interest Only, 5.807%*, 3/25/2034	453,805	58,996
"WI", Series 2011-59, Interest Only, 6.0%, 5/25/2040	460,860	52,168

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

	Principal Amount ($)	Value ($)
"PI", Series 2007-75, Interest Only, 6.347%*, 8/25/2037	1,438,973	283,983
"101", Series 383, Interest Only, 6.5%, 9/1/2022	1,296,744	190,978
"SJ", Series 2007-36, Interest Only, 6.577%*, 4/25/2037	281,582	37,164
"SA", Series 2005-42, Interest Only, 6.607%*, 5/25/2035	493,658	61,106
"KI", Series 2005-65, Interest Only, 6.807%*, 8/25/2035	121,156	22,462
"ES", Series 2003-17, Interest Only, 6.857%*, 9/25/2022	974,389	26,281
"SA", Series G92-57, IOette, 82.85%*, 10/25/2022	41,972	76,657
Government National Mortgage Association:		
"IE", Series 2011-128, Interest Only, 3.5%, 9/20/2026	1,102,919	115,243
"JY", Series 2010-20, 4.0%, 12/20/2033	1,974,028	2,077,098
"LI", Series 2009-104, Interest Only, 4.5%, 12/16/2018	274,397	18,675
"NI", Series 2010-44, Interest Only, 4.5%, 10/20/2037	683,685	74,480
"CI", Series 2010-87, Interest Only, 4.5%, 11/20/2038	1,251,588	479,433
"MI", Series 2010-169, Interest Only, 4.5%, 8/20/2040	891,712	167,668
"AI", Series 2012-15, Interest Only, 4.5%, 9/20/2040	664,667	174,493
"VB", Series 2010-26, 5.0%, 1/20/2024	600,000	676,208
"GZ", Series 2005-24, 5.0%, 3/20/2035	505,614	564,973
"MI", Series 2009-76, Interest Only, 5.0%, 3/20/2035	696,943	24,263
"ZA", Series 2005-75, 5.0%, 10/16/2035	568,808	637,979
"MZ", Series 2009-98, 5.0%, 10/16/2039	1,020,644	1,180,091
"Z", Series 2009-112, 5.0%, 11/20/2039	1,195,775	1,327,063
"AI", Series 2008-51, Interest Only, 5.5%, 5/16/2023	551,349	48,934
"AI", Series 2008-46, Interest Only, 5.5%, 5/16/2023	285,245	26,923
"GI", Series 2003-19, Interest Only, 5.5%, 3/16/2033	960,597	178,117
"IB", Series 2010-130, Interest Only, 5.5%, 2/20/2038	309,091	52,549
"BS", Series 2011-93, Interest Only, 5.908%*, 7/16/2041	1,436,576	228,231
"DI", Series 2009-10, Interest Only, 6.0%, 4/16/2038	381,255	70,273
"SA", Series 2012-84, Interest Only, 6.108%*, 12/20/2038	1,590,504	276,949
"QA", Series 2007-57, Interest Only, 6.308%*, 10/20/2037	403,976	53,145
"IP", Series 2009-118, Interest Only, 6.5%, 12/16/2039	123,334	24,867
"SA", Series 2006-69, Interest Only, 6.608%*, 12/20/2036	774,088	127,227
"IC", Series 1997-4, Interest Only, 7.5%, 3/16/2027	649,269	160,216
"SK", Series 2003-11, Interest Only, 7.508%*, 2/16/2033	567,941	117,459
Total Collateralized Mortgage Obligations (Cost $15,511,042)		**16,536,856**

	Principal Amount ($)	Value ($)
Government & Agency Obligations 9.5%		
U.S. Treasury Obligations		
U.S. Treasury Bill, 0.1%**, 9/5/2013 (b)	1,045,000	1,044,961
U.S. Treasury Bond, 2.875%, 5/15/2043	4,500,000	3,982,500
U.S. Treasury Notes:		
0.75%, 6/15/2014 (c)	1,000,000	1,005,273
1.75%, 5/15/2023	5,000,000	4,682,810
Total Government & Agency Obligations (Cost $10,643,238)		**10,715,544**

	Contracts	Value ($)
Call Options Purchased 0.7%		
Options on Exchange-Traded Futures Contracts 0.0%		
10 Year U.S. Treasury Note Future, Expiration Date 8/23/2013, Strike Price $132.5	126	**5,906**

	Contract Amount	Value ($)
Options on Interest Rate Swap Contracts 0.7%		
Pay Fixed Rate — 3.583% – Receive Floating — LIBOR, Swap Expiration Date 5/11/2026, Option Expiration Date 5/9/2016[1]	2,700,000	170,776
Pay Fixed Rate — 3.635% – Receive Floating — LIBOR, Swap Expiration Date 4/27/2026, Option Expiration Date 4/25/2016[2]	2,600,000	157,126
Pay Fixed Rate — 3.72% – Receive Floating — LIBOR, Swap Expiration Date 4/22/2026, Option Expiration Date 4/20/2016[3]	2,600,000	147,568
Pay Fixed Rate — 4.32% – Receive Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[4]	6,000,000	286,825
		762,295
Total Call Options Purchased (Cost $699,978)		**768,201**
Put Options Purchased 0.1%		
Options on Interest Rate Swap Contracts		
Receive Fixed Rate — 2.32% – Pay Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[4] (Cost $203,883)	6,000,000	**73,596**

	Shares	Value ($)
Cash Equivalents 0.2%		
Central Cash Management Fund, 0.07% (d) (Cost $248,923)	248,923	**248,923**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $134,553,253)[†]	119.7	**134,986,198**
Other Assets and Liabilities, Net	(19.7)	**(22,250,746)**
Net Assets	100.0	**112,735,452**

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

* These securities are shown at their current rate as of June 30, 2013.

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

† The cost for federal income tax purposes was $134,553,275. At June 30, 2013, net unrealized appreciation for all securities based on tax cost was $432,923. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $4,345,125 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,912,202.

(a) When-issued or delayed delivery securities included.

(b) At June 30, 2013, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(c) At June 30, 2013, this security has been pledged, in whole or in part, as collateral for open swap contracts.

(d) 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.

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, 2013, open futures contracts bought were as follows:

Futures	**Currency**	**Expiration Date**	**Contracts**	**Notional Value ($)**	**Unrealized Depreciation ($)**
Ultra Long U.S. Treasury Bond	USD	9/19/2013	18	2,651,625	**(159,173)**

At June 30, 2013, open futures contracts sold were as follows:

Futures	**Currency**	**Expiration Date**	**Contracts**	**Notional Value ($)**	**Unrealized Appreciation ($)**
10 Year U.S. Treasury Note	USD	9/19/2013	110	13,921,875	**189,212**

Currency Abbreviation	
USD	United States Dollar

At June 30, 2013, open written options contracts were as follows:

Options on Exchange-Traded Futures Contracts	**Contracts**	**Expiration Date**	**Strike Price ($)**	**Premiums Received ($)**	**Value ($) (e)**
Put Options					
10 Year U.S. Treasury Note Future	101	8/23/2013	130.0	86,502	**(366,125)**

(e) Unrealized depreciation on written options on exchange-traded futures contracts at June 30, 2013 was $279,623.

Options on Interest Rate Swap Contracts	**Swap Effective/ Expiration Date**	**Contract Amount**	**Option Expiration Date**	**Premiums Received ($)**	**Value ($) (f)**
Call Options					
Receive Fixed — 3.32% – Pay Floating — LIBOR	2/3/2017 2/3/2027	3,000,000[4]	2/1/2017	216,990	(262,048)
Receive Fixed — 4.083% – Pay Floating — LIBOR	5/11/2016 5/11/2026	2,700,000[1]	5/9/2016	91,800	(121,222)
Receive Fixed — 4.135% – Pay Floating — LIBOR	4/27/2016 4/27/2026	2,600,000[2]	4/25/2016	96,200	(110,846)
Receive Fixed — 4.22% – Pay Floating — LIBOR	4/22/2016 4/22/2026	2,600,000[3]	4/20/2016	92,690	(103,777)
Receive Fixed — 5.132% – Pay Floating — LIBOR	3/17/2016 3/17/2026	2,400,000[3]	3/15/2016	17,340	(44,927)
Receive Fixed — 4.064% – Pay Floating — LIBOR	5/13/2014 5/13/2044	2,400,000[3]	5/19/2014	17,700	(66,434)
Receive Fixed — 5.132% – Pay Floating — LIBOR	3/17/2016 3/17/2026	2,400,000[4]	3/15/2016	28,321	(44,927)
Total Call Options				**561,041**	**(754,181)**

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

Options on Interest Rate Swap Contracts	Swap Effective/ Expiration Date	Contract Amount	Option Expiration Date	Premiums Received ($)	Value ($) (f)
Put Options					
Pay Fixed — 1.132% – Receive Floating — LIBOR	3/17/2016 3/17/2026	2,400,000[3]	3/15/2016	17,340	(2,127)
Pay Fixed — 2.385% – Receive Floating — LIBOR	3/31/2014 3/31/2044	2,400,000[5]	3/27/2014	32,760	(7,658)
Pay Fixed — 2.423% – Receive Floating — LIBOR	3/20/2014 3/20/2044	2,400,000[6]	3/18/2014	34,560	(8,700)
Pay Fixed — 3.32% – Receive Floating — LIBOR	2/3/2017 2/3/2027	3,000,000[4]	2/1/2017	216,990	(104,378)
Pay Fixed — 1.132% Receive Floating — LIBOR	3/17/2016 3/17/2026	2,400,000[4]	3/15/2016	6,120	(2,127)
Pay Fixed — 2.064% Receive Floating — LIBOR	5/13/2014 5/13/2044	2,400,000[3]	5/9/2014	17,700	(2,663)
Total Put Options				**325,470**	**(127,653)**
Total				**886,511**	**(881,834)**

(f) Unrealized appreciation on written options on interest rate swap contracts at June 30, 2013 was $4,677.

At June 30, 2013, 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) ($)	Unrealized Appreciation ($)
4/23/2014 4/23/2016	20,000,000[3]	Fixed — 0.921%	Floating — LIBOR	10,416	10,416	—
4/23/2014 4/23/2019	5,000,000[3]	Fixed — 2.077%	Floating — LIBOR	4,286	4,286	—
4/23/2014 4/23/2024	2,000,000[2]	Fixed — 3.024%	Floating — LIBOR	(877)	(877)	—
6/3/2013 6/3/2025	2,300,000[3]	Floating — LIBOR	Fixed — 3.0%	21,864	—	21,864
4/23/2014 4/23/2034	3,000,000[2]	Fixed — 3.532%	Floating — LIBOR	(2,267)	(2,267)	—
Total unrealized appreciation						**21,864**

Counterparty:

1 Bank of America

2 Citigroup, Inc.

3 Nomura International PLC

4 BNP Paribas

5 Barclays Bank PLC

6 JPMorgan Chase Securities, Inc.

LIBOR: London Interbank Offered Rate

For information on the Fund's policy and additional disclosures regarding futures contracts, purchased and written options contracts, interest rate 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, 2013 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 (g)				
Mortgage-Backed Securities Pass-Throughs	$ —	$106,643,078	$ —	$106,643,078
Collateralized Mortgage Obligations	—	16,536,856	—	16,536,856
Government & Agency Obligations	—	10,715,544	—	10,715,544
Short-Term Investments	248,923	—	—	248,923
Derivatives (h)				
Purchased Options	5,906	835,891	—	841,797
Futures Contracts	189,212	—	—	189,212
Interest Rate Swap Contracts	—	21,864	—	21,864
Total	**$ 444,041**	**$134,753,233**	**$ —**	**$135,197,274**

Liabilities				
Derivatives (h)				
Written Options	$ (366,125)	$ (881,834)	$ —	$ (1,247,959)
Futures Contracts	(159,173)	—	—	(159,173)
Total	**$ (525,298)**	**$ (881,834)**	**$ —**	**$ (1,407,132)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2013.

(g) See Investment Portfolio for additional detailed categorizations.

(h) Derivatives include value of purchased options, unrealized appreciation (depreciation) on open futures contracts, and interest rate swap 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, 2013 (Unaudited)

Assets	
Investments	
Investments in non-affiliated securities, at value (cost $134,304,330)	$ 134,737,275
Investment in Central Cash Management Fund (cost $248,923)	248,923
Total investments in securities, at value (cost $134,553,253)	134,986,198
Receivable for investments sold	6,522,176
Receivable for investments sold — when-issued/delayed delivery securities	56,608,951
Receivable for Fund shares sold	824
Interest receivable	548,834
Receivable for variation margin on futures contracts	12,251
Net receivable for pending swap contracts	832,944
Unrealized appreciation on swap contracts	21,864
Upfront payments paid on swap contracts	14,702
Other assets	1,502
Total assets	199,550,246

Liabilities	
Cash overdraft	7,265
Payable for investments purchased	11,192,029
Payable for investments purchased — when-issued/delayed delivery securities	74,186,990
Payable for Fund shares redeemed	65,953
Options written, at value (premium received $973,013)	1,247,959
Upfront payments received on swap contracts	3,144
Accrued management fee	37,503
Accrued Trustees' fees	1,068
Other accrued expenses and payables	72,883
Total liabilities	86,814,794
Net assets, at value	**$ 112,735,452**

Net Assets Consist of	
Undistributed net investment income	1,032,660
Investments	432,945
Swap contracts	21,864
Futures	30,039
Written options	(274,946)
Accumulated net realized gain (loss)	1,373,172
Paid-in capital	110,119,718
Net assets, at value	**$ 112,735,452**

Class A	
Net Asset Value, offering and redemption price per share ($108,262,913 ÷ 9,426,458 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 11.49**
Class B	
Net Asset Value, offering and redemption price per share ($4,472,539 ÷ 389,307 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 11.49**

Statement of Operations

for the six months ended June 30, 2013 (Unaudited)

Investment Income	
Income:	
Interest	$ 1,455,176
Income distributions — Central Cash Management Fund	2,652
Total income	1,457,828
Expenses:	
Management fee	267,190
Administration fee	59,376
Services to shareholders	805
Distribution service fees (Class B)	6,064
Record keeping fees (Class B)	2,401
Custodian fee	19,585
Audit and tax fees	32,037
Legal fees	4,373
Reports to shareholders	16,199
Trustees' fees and expenses	3,169
Other	10,356
Total expenses before expense reductions	421,555
Expense reductions	(18,657)
Total expenses after expense reductions	402,898
Net investment income	**1,054,930**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	920,427
Swap contracts	388,507
Futures	(44,434)
Written options	177,921
	1,442,421
Change in net unrealized appreciation (depreciation) on:	
Investments	(5,507,996)
Swap contracts	364,779
Securities sold short	(129,707)
Futures	51,877
Written options	(601,208)
	(5,822,255)
Net gain (loss)	**(4,379,834)**
Net increase (decrease) in net assets resulting from operations	**$ (3,324,904)**

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, 2013 (Unaudited)	Year Ended December 31, 2012
Operations:		
Net investment income	$ 1,054,930	$ 3,586,409
Net realized gain (loss)	1,442,421	4,527,418
Change in net unrealized appreciation (depreciation)	(5,822,255)	(4,180,279)
Net increase (decrease) in net assets resulting from operations	(3,324,904)	3,933,548
Distributions to shareholders from:		
Net investment income:		
Class A	(3,325,537)	(5,435,920)
Class B	(119,146)	(209,154)
Net realized gain:		
Class A	(4,523,083)	(2,952,755)
Class B	(185,024)	(124,749)
Total distributions	(8,152,790)	(8,722,578)
Fund share transactions:		
Class A		
Proceeds from shares sold	6,248,690	18,065,811
Reinvestment of distributions	7,848,620	8,388,675
Payments for shares redeemed	(15,460,992)	(47,401,824)
Net increase (decrease) in net assets from Class A share transactions	(1,363,682)	(20,947,338)
Class B		
Proceeds from shares sold	270,866	919,743
Reinvestment of distributions	304,170	333,903
Payments for shares redeemed	(1,093,925)	(2,329,903)
Net increase (decrease) in net assets from Class B share transactions	(518,889)	(1,076,257)
Increase (decrease) in net assets	(13,360,265)	(26,812,625)
Net assets at beginning of period	126,095,717	152,908,342
Net assets at end of period (including undistributed net investment income of $1,032,660 and $3,422,413, respectively)	**$ 112,735,452**	**$ 126,095,717**

Other Information		
Class A		
Shares outstanding at beginning of period	9,511,241	11,145,622
Shares sold	514,981	1,389,466
Shares issued to shareholders in reinvestment of distributions	660,658	672,169
Shares redeemed	(1,260,422)	(3,696,016)
Net increase (decrease) in Class A shares	(84,783)	(1,634,381)
Shares outstanding at end of period	**9,426,458**	**9,511,241**
Class B		
Shares outstanding at beginning of period	428,962	511,071
Shares sold	22,785	72,277
Shares issued to shareholders in reinvestment of distributions	25,582	26,755
Shares redeemed	(88,022)	(181,141)
Net increase (decrease) in Class B shares	(39,655)	(82,109)
Shares outstanding at end of period	**389,307**	**428,962**

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

Financial Highlights

Class A	Six Months Ended 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$12.69**	**$13.12**	**$12.98**	**$12.78**	**$12.40**	**$12.38**
Income (loss) from investment operations:						
Net investment income[a]	.11	.34	.48	.50	.52	.56
Net realized and unrealized gain (loss)	(.44)	.03	.45	.32	.45	.04
Total from investment operations	(.33)	.37	.93	.82	.97	.60
Less distributions from:						
Net investment income	(.37)	(.52)	(.57)	(.62)	(.59)	(.58)
Net realized gains	(.50)	(.28)	(.22)	—	—	—
Total distributions	(.87)	(.80)	(.79)	(.62)	(.59)	(.58)
Net asset value, end of period	**$11.49**	**$12.69**	**$13.12**	**$12.98**	**$12.78**	**$12.40**
Total Return (%)	(2.87)[b]**	2.93[b]	7.46	6.61	8.08	4.93[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	108	121	146	157	169	211
Ratio of expenses before expense reductions (%)	.70*	.68	.67	.64	.58	.66
Ratio of expenses after expense reductions (%)	.67*	.66	.67	.64	.58	.65
Ratio of net investment income (%)	1.79*	2.65	3.68	3.86	4.16	4.58
Portfolio turnover rate (%)	315**	796	673	423	390	543

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 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$12.67**	**$13.10**	**$12.95**	**$12.75**	**$12.37**	**$12.35**
Income (loss) from investment operations:						
Net investment income[a]	.09	.29	.43	.46	.48	.52
Net realized and unrealized gain (loss)	(.45)	.03	.46	.31	.45	.03
Total from investment operations	(.36)	.32	.89	.77	.93	.55
Less distributions from:						
Net investment income	(.32)	(.47)	(.52)	(.57)	(.55)	(.53)
Net realized gains	(.50)	(.28)	(.22)	—	—	—
Total distributions	(.82)	(.75)	(.74)	(.57)	(.55)	(.53)
Net asset value, end of period	**$11.49**	**$12.67**	**$13.10**	**$12.95**	**$12.75**	**$12.37**
Total Return (%)	(2.91)[b]**	2.48[b]	7.15	6.24	7.70	4.60[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	4	5	7	6	7	8
Ratio of expenses before expense reductions (%)	1.05*	1.03	1.01	.99	.92	1.00
Ratio of expenses after expense reductions (%)	.99*	1.01	1.01	.99	.92	1.00
Ratio of net investment income (%)	1.45*	2.29	3.34	3.51	3.81	4.24
Portfolio turnover rate (%)	315**	796	673	423	390	543

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 prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer with which the option was traded. Over-the-counter written or purchased options 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. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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 during the six months ended June 30, 2013.

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.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2012 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 from net investment income of the Fund, if any, are 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, 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 based upon the relative net assets or other appropriate measures.

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, 2013, the Fund entered into interest rate swap transactions to gain exposure to different parts of the yield curve while managing overall duration. 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.

For the six months ended June 30, 2013, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $32,300,000 to $40,700,000.

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, 2013, the Fund entered into options on interest rate futures and on interest rate swap contracts 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, 2013 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, 2013, the investment in written option contracts had a total value generally indicative of a range from approximately $590,000 to $1,248,000, and purchased option contracts had a total value generally indicative of a range from approximately $575,000 to $842,000.

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, 2013, 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, 2013, is included in a table following the Fund's Investment Portfolio. For the period ended June 30, 2013, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $2,652,000 to $7,555,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $3,722,000 to $13,922,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2013 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Purchased Options**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a) (b)	$ 841,797	$ 21,864	$ 189,212	$ 1,052,873

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.

Liability Derivatives	**Written Options**	**Futures Contracts**	**Total**
Interest Rate Contracts (a) (b)	$ (1,247,959)	$ (159,173)	$ (1,407,132)

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.

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2013 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)	$ 981	$ 177,921	$ 388,507	$ (44,434)	$ 522,975

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)	$ 230,992	$ (601,208)	$ 364,779	$ 51,877	$ 46,440

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

As of June 30, 2013, the Fund has transactions subject to enforceable master netting agreements. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by derivative type, including any collateral exposure, is included in the following tables:

Counterparty	Gross Amounts of Assets Presented in the Statement of Assets and Liabilities (a)	Financial Instruments and Derivatives Available for Offset	Non-Cash Collateral Received	Collateral Received	Net Amount of Derivative Assets
Bank of America	$ 170,776	$ (121,222)	$ —	$ —	$ 49,554
BNP Paribas	360,421	(360,421)	—	—	—
Citigroup, Inc.	157,126	(110,846)	—	—	46,280
Nomura International PLC	169,432	(169,432)	—	—	—
Exchange Traded Options and Futures (b)	195,118	—	—	—	195,118
	$ 1,052,873	**$ (761,921)**	**$ —**	**$ —**	**$ 290,952**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities (a)	Financial Instruments and Derivatives Available for Offset	Non-Cash Collateral Pledged (c)	Collateral Pledged	Net Amount of Derivative Liabilities
Bank of America	$ 121,222	$ (121,222)	$ —	$ —	$ —
Barclays Bank PLC	7,658	—	—	—	7,658
BNP Paribas	413,480	(360,421)	—	—	53,059
Citigroup, Inc.	110,846	(110,846)	—	—	—
JPMorgan Chase Securities, Inc.	8,700	—	—	—	8,700
Nomura International PLC	219,928	(169,432)	(20,105)	—	30,391
Exchange Traded Options and Futures (b)	525,298	—	—	—	525,298
	$ 1,407,132	**$ (761,921)**	**$ (20,105)**	**$ —**	**$ 625,106**

(a) Swap contracts, over-the-counter purchased and written options are netted.

(b) Includes financial instruments (purchased options or futures) which are not subject to a master netting arrangement, or another similar arrangement.

(c) The actual collateral received and/or pledged may be more than the amount shown.

C. Purchases and Sales of Securities

During the six months ended June 30, 2013, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury securities) aggregated $448,972,090 and $461,297,759, respectively. Purchases and sales of U.S. Treasury securities aggregated $12,972,831 and $12,356,770, respectively.

For the six months ended June 30, 2013, transactions for written options on futures and interest rate swap contracts were as follows:

	Contracts/ Contract Amount	Premiums
Outstanding, beginning of period	25,600,030	$ 916,248
Options written	19,200,101	258,343
Options closed	(11,700,000)	(189,925)
Options expired	(30)	(11,653)
Outstanding, end of period	**33,100,101**	**$ 973,013**

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, 2013 through April 30, 2013, the Advisor had 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%.

For the period from May 1, 2013 through April 30, 2014, 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 0.67%.

For the period from January 1, 2013 through April 30, 2014, 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 B at 0.99%.

Accordingly, for the six months ended June 30, 2013, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $17,966, and the amount charged aggregated $249,224, 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, 2013, the Administration Fee was $59,376, of which $9,285 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, 2013, the amounts charged to the Fund by DISC were as follows:

	Total Aggregated	Amount Waived
Class A	$ 136	$ 136
Class B	35	35
	$ 171	**$ 171**

In addition, for the six months ended June 30, 2013, the Advisor reimbursed $520 of recordkeeping fees for Class B shares.

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, 2013, the Distribution Service Fee aggregated $6,064, of which $979 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, 2013, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $7,964, of which $7,836 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 Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and DWS Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and DWS Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that DWS Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in DWS Variable NAV Money Fund.

E. Ownership of the Fund

At June 30, 2013, 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%, 33% and 18%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 94%.

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, 2013.

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, 2013 to June 30, 2013).

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, 2013

Actual Fund Return	Class A	Class B
Beginning Account Value 1/1/13	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$ 971.30	$ 970.90
Expenses Paid per $1,000*	$ 3.27	$ 4.84
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/13	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,021.47	$1,019.89
Expenses Paid per $1,000*	$ 3.36	$ 4.96

* 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 181 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Government & Agency Securities VIP	.67%	.99%

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.

For an analysis of the fees associated with an investment in the Fund or similar funds, please refer to http://apps.finra.org/fundanalyzer/1/fa.aspx.

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 17, 2012

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 2012, 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, 2010 and 2011.

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 103 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 "fallout" 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 considered how aggregated DWS Fund performance measures relative to appropriate peers had varied by asset class and over time.

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
(800) 621-1148

VS2GAS-3 (R-028384-2 8/13)

JUNE 30, 2013

SEMIANNUAL REPORT

DWS VARIABLE SERIES II

DWS High Income 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. The Fund may lend securities to approved institutions. See the prospectus for details.

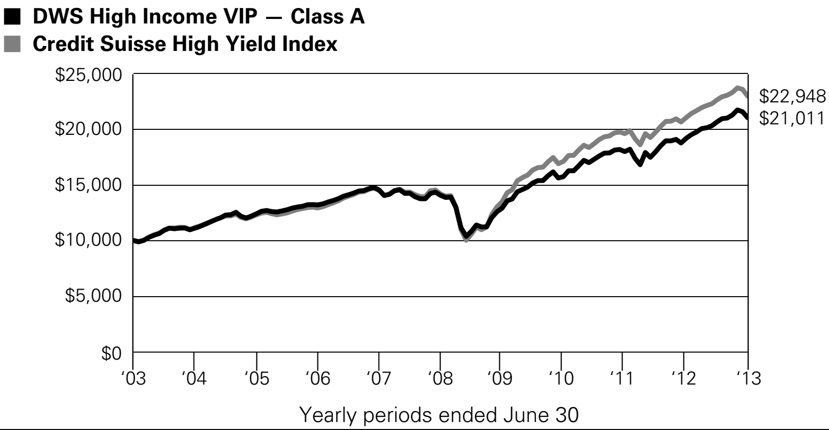
Performance Summary

June 30, 2013 (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, 2013 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 tracks the performance of 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	$10,187	$10,962	$13,355	$14,956	$21,011
	Average annual total return	1.87%	9.62%	10.12%	8.38%	7.71%
Credit Suisse High Yield Index	Growth of $10,000	$10,152	$10,918	$13,423	$16,185	$22,948
	Average annual total return	1.52%	9.18%	10.31%	10.11%	8.66%
DWS High Income VIP		**6-Month‡**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$10,175	$10,945	$13,275	$14,795	$20,369
	Average annual total return	1.75%	9.45%	9.90%	8.15%	7.37%
Credit Suisse High Yield Index	Growth of $10,000	$10,152	$10,918	$13,423	$16,185	$22,948
	Average annual total return	1.52%	9.18%	10.31%	10.11%	8.66%

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)	**6/30/13**	**12/31/12**
Corporate Bonds	92%	86%
Cash Equivalents	4%	11%
Convertible Bonds	2%	1%
Preferred Security	1%	1%
Preferred Stocks	1%	1%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/13**	**12/31/12**
Consumer Discretionary	19%	23%
Financials	16%	16%
Telecommunication Services	16%	14%
Energy	13%	12%
Industrials	10%	9%
Materials	10%	10%
Information Technology	5%	5%
Health Care	5%	5%
Consumer Staples	4%	3%
Utilities	2%	3%
	100%	100%

Quality (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/13**	**12/31/12**
BBB	2%	2%
BB	32%	29%
B	51%	57%
CCC	13%	10%
CC	—	1%
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 Manager

Gary Russell, CFA

Portfolio Manager

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 89.6%		
Consumer Discretionary 18.5%		
AMC Entertainment, Inc., 8.75%, 6/1/2019	170,000	181,900
AMC Networks, Inc., 7.75%, 7/15/2021	80,000	87,400
AmeriGas Finance LLC:		
6.75%, 5/20/2020	110,000	113,850
7.0%, 5/20/2022	110,000	112,475
APX Group, Inc., 144A, 6.375%, 12/1/2019	205,000	194,750
Asbury Automotive Group, Inc.:		
8.375%, 11/15/2020	460,000	509,450
144A, 8.375%, 11/15/2020	45,000	49,838
Ashtead Capital, Inc., 144A, 6.5%, 7/15/2022	330,000	344,025
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	350,000	353,500
Avis Budget Car Rental LLC:		
144A, 5.5%, 4/1/2023	205,000	197,825
8.25%, 1/15/2019	535,000	581,812
BC Mountain LLC, 144A, 7.0%, 2/1/2021	210,000	214,200
Block Communications, Inc., 144A, 7.25%, 2/1/2020	375,000	393,750
Boyd Gaming Corp., 9.0%, 7/1/2020 (b)	155,000	157,131
Cablevision Systems Corp., 8.0%, 4/15/2020	65,000	70,850
Caesar's Entertainment Operating Co., Inc., 8.5%, 2/15/2020	760,000	716,300
Caesar's Operating Escrow LLC, 144A, 9.0%, 2/15/2020	245,000	233,363
Carlson Wagonlit BV, 144A, 6.875%, 6/15/2019	215,000	217,150
CCO Holdings LLC:		
6.5%, 4/30/2021	655,000	682,837
6.625%, 1/31/2022	450,000	469,125
7.0%, 1/15/2019	120,000	127,200
7.375%, 6/1/2020	50,000	54,375
8.125%, 4/30/2020	150,000	163,875
CDR DB Sub, Inc., 144A, 7.75%, 10/15/2020	230,000	230,575
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	245,000	230,300
144A, 6.375%, 9/15/2020	1,215,000	1,236,262
Chester Downs & Marina LLC, 144A, 9.25%, 2/1/2020 (b)	145,000	139,925
Clear Channel Communications, Inc., 144A, 11.25%, 3/1/2021	280,000	291,900
Clear Channel Worldwide Holdings, Inc.:		
Series A, 144A, 6.5%, 11/15/2022	250,000	256,250
Series B, 144A, 6.5%, 11/15/2022	365,000	375,950
Series A, 7.625%, 3/15/2020	110,000	113,300
Series B, 7.625%, 3/15/2020	1,115,000	1,154,025
Cogeco Cable, Inc., 144A, 4.875%, 5/1/2020	20,000	19,450
CSC Holdings LLC, 6.75%, 11/15/2021	900,000	969,750
Cumulus Media Holdings, Inc., 7.75%, 5/1/2019 (b)	375,000	366,562
DISH DBS Corp.:		
6.75%, 6/1/2021	50,000	53,125
7.875%, 9/1/2019	270,000	302,400
Fontainebleau Las Vegas Holdings LLC, 144A, 11.0%, 6/15/2015*	490,000	0
Griffey Intermediate, Inc., 144A, 7.0%, 10/15/2020 (b)	405,000	390,825
Harron Communications LP, 144A, 9.125%, 4/1/2020	395,000	426,600
Hertz Corp., 6.75%, 4/15/2019	305,000	322,538
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	140,000	141,750
Jo-Ann Stores Holdings, Inc., 144A, 9.75%, 10/15/2019 (PIK)	475,000	488,062
Lear Corp., 8.125%, 3/15/2020	184,000	201,480
Libbey Glass, Inc., 6.875%, 5/15/2020	117,000	122,411
Lions Gate Entertainment, Inc., 144A, 10.25%, 11/1/2016	540,000	578,475
LKQ Corp., 144A, 4.75%, 5/15/2023	290,000	276,950
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	155,000	154,613
Mediacom Broadband LLC, 6.375%, 4/1/2023	425,000	422,875
Mediacom LLC, 7.25%, 2/15/2022	110,000	115,775
MGM Resorts International:		
6.625%, 12/15/2021 (b)	590,000	608,437
6.75%, 10/1/2020 (b)	170,000	175,950
7.625%, 1/15/2017	560,000	611,800
8.625%, 2/1/2019	840,000	949,200
10.0%, 11/1/2016	225,000	263,813
National CineMedia LLC, 6.0%, 4/15/2022	200,000	205,250
Norcraft Companies LP, 10.5%, 12/15/2015	1,260,000	1,307,250
Palace Entertainment Holdings LLC, 144A, 8.875%, 4/15/2017	435,000	448,050
Petco Animal Supplies, Inc., 144A, 9.25%, 12/1/2018	315,000	339,412
Petco Holdings, Inc., 144A, 8.5%, 10/15/2017 (PIK)	115,000	117,300
Quebecor Media, Inc., 5.75%, 1/15/2023	205,000	199,875
Rent-A-Center, Inc., 144A, 4.75%, 5/1/2021	145,000	137,388
Schaeffler Finance BV:		
144A, 4.75%, 5/15/2021	260,000	247,000
144A, 7.75%, 2/15/2017	420,000	464,100
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021	125,000	121,250

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

		Principal Amount ($)(a)	Value ($)
Seminole Indian Tribe of Florida:			
144A, 7.75%, 10/1/2017		200,000	212,500
144A, 7.804%, 10/1/2020		380,000	400,900
Serta Simmons Holdings LLC, 144A, 8.125%, 10/1/2020 (b)		230,000	234,025
SIWF Merger Sub, Inc., 144A, 6.25%, 6/1/2021		295,000	289,100
Starz LLC, 5.0%, 9/15/2019		175,000	173,688
Taylor Morrison Communities, Inc., 144A, 5.25%, 4/15/2021 (b)		250,000	237,500
Travelport LLC:			
144A, 6.4%**, 3/1/2016		224,966	210,343
144A, 13.875%, 3/1/2016 (PIK)		50,625	51,764
UCI International, Inc., 8.625%, 2/15/2019		310,000	316,200
Unitymedia Hessen GmbH & Co., KG:			
144A, 5.5%, 1/15/2023		945,000	893,025
144A, 7.5%, 3/15/2019		435,000	457,837
Unitymedia KabelBW GmbH, 144A, 9.625%, 12/1/2019	EUR	550,000	787,498
Univision Communications, Inc.:			
144A, 6.875%, 5/15/2019		60,000	63,000
144A, 7.875%, 11/1/2020		140,000	151,550
Viking Cruises Ltd., 144A, 8.5%, 10/15/2022		205,000	224,475
Visant Corp., 10.0%, 10/1/2017 (b)		460,000	424,350
Visteon Corp., 6.75%, 4/15/2019		171,000	179,978
Yonkers Racing Corp., 144A, 11.375%, 7/15/2016		335,000	353,844
			27,466,761

Consumer Staples 6.1%

	Principal Amount ($)(a)	Value ($)
B&G Foods, Inc., 4.625%, 6/1/2021	245,000	233,975
Chiquita Brands International, Inc., 144A, 7.875%, 2/1/2021	200,000	209,500
Del Monte Corp., 7.625%, 2/15/2019	410,000	421,275
FAGE Dairy Industry SA, 144A, 9.875%, 2/1/2020	810,000	872,775
Hawk Acquisition Sub, Inc., 144A, 4.25%, 10/15/2020	1,890,000	1,807,312
JBS U.S.A. LLC, 144A, 8.25%, 2/1/2020	160,000	167,600
NBTY, Inc., 9.0%, 10/1/2018	190,000	206,625
Pilgrim's Pride Corp., 7.875%, 12/15/2018	290,000	308,850
Reynolds Group Issuer, Inc.:		
5.75%, 10/15/2020	405,000	408,038
6.875%, 2/15/2021	540,000	567,000
7.125%, 4/15/2019	415,000	438,344
8.25%, 2/15/2021 (b)	225,000	222,750
8.5%, 5/15/2018 (b)	455,000	468,650
9.875%, 8/15/2019	125,000	133,750
Smithfield Foods, Inc.:		
6.625%, 8/15/2022	385,000	413,875
7.75%, 7/1/2017	1,180,000	1,300,950
Sun Products Corp., 144A, 7.75%, 3/15/2021	360,000	357,300
Tops Holding Corp., 144A, 8.875%, 12/15/2017	100,000	108,250
U.S. Foods, Inc., 8.5%, 6/30/2019	400,000	418,000
		9,064,819

Energy 12.7%

	Principal Amount ($)(a)	Value ($)
Access Midstream Partners LP:		
4.875%, 5/15/2023	270,000	250,425
6.125%, 7/15/2022	325,000	329,062
Antero Resources Finance Corp.:		
7.25%, 8/1/2019	285,000	297,113
9.375%, 12/1/2017	390,000	413,400
Berry Petroleum Co.:		
6.375%, 9/15/2022	205,000	204,231
6.75%, 11/1/2020	540,000	558,900
BreitBurn Energy Partners LP:		
7.875%, 4/15/2022	205,000	209,100
8.625%, 10/15/2020	225,000	238,500
Chaparral Energy, Inc., 7.625%, 11/15/2022	370,000	377,400
Chesapeake Energy Corp., 5.75%, 3/15/2023	100,000	101,250
Chesapeake Oilfield Operating LLC, 144A, 6.625%, 11/15/2019	150,000	148,500
Continental Resources, Inc.:		
144A, 4.5%, 4/15/2023	60,000	58,350
5.0%, 9/15/2022	180,000	183,150
Crestwood Midstream Partners LP, 7.75%, 4/1/2019	325,000	334,750
Crosstex Energy LP, 7.125%, 6/1/2022 (b)	105,000	106,050
Denbury Resources, Inc., 4.625%, 7/15/2023	530,000	488,925
Dresser-Rand Group, Inc., 6.5%, 5/1/2021	420,000	445,200
Eagle Rock Energy Partners LP, 8.375%, 6/1/2019	410,000	417,175
EP Energy LLC:		
6.875%, 5/1/2019	330,000	353,100
7.75%, 9/1/2022 (b)	175,000	187,250
9.375%, 5/1/2020	150,000	169,500
EPE Holdings LLC, 144A, 8.125%, 12/15/2017 (PIK) (b)	495,374	505,281
EV Energy Partners LP, 8.0%, 4/15/2019	835,000	843,350
Frontier Oil Corp., 6.875%, 11/15/2018	315,000	337,837
Global Geophysical Services, Inc., 10.5%, 5/1/2017	540,000	469,800
Halcon Resources Corp.:		
8.875%, 5/15/2021	585,000	567,450
9.75%, 7/15/2020	280,000	279,300
Holly Energy Partners LP:		
6.5%, 3/1/2020	105,000	105,788
8.25%, 3/15/2018	330,000	348,975
Kodiak Oil & Gas Corp., 144A, 5.5%, 1/15/2021 (b)	265,000	258,375
Linn Energy LLC:		
144A, 6.25%, 11/1/2019	595,000	566,737
6.5%, 5/15/2019	115,000	112,413
MEG Energy Corp.:		
144A, 6.375%, 1/30/2023	780,000	756,600
144A, 6.5%, 3/15/2021	235,000	232,944

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

	Principal Amount ($)(a)	Value ($)
Memorial Production Partners LP, 144A, 7.625%, 5/1/2021	355,000	349,675
Midstates Petroleum Co., Inc.:		
144A, 9.25%, 6/1/2021	485,000	455,900
144A, 10.75%, 10/1/2020	230,000	231,150
Murray Energy Corp., 144A, 8.625%, 6/15/2021	50,000	50,000
Northern Oil & Gas, Inc., 8.0%, 6/1/2020	595,000	600,950
Oasis Petroleum, Inc.:		
6.5%, 11/1/2021	175,000	179,375
6.875%, 1/15/2023	130,000	133,900
7.25%, 2/1/2019	665,000	693,262
Offshore Group Investment Ltd.:		
144A, 7.125%, 4/1/2023	410,000	402,825
7.5%, 11/1/2019 (b)	580,000	604,650
Pacific Drilling SA, 144A, 5.375%, 6/1/2020	245,000	229,075
Range Resources Corp., 5.0%, 3/15/2023	105,000	102,638
Regency Energy Partners LP, 144A, 4.5%, 11/1/2023	95,000	85,975
Sabine Pass Liquefaction LLC:		
144A, 5.625%, 2/1/2021	690,000	669,300
144A, 5.625%, 4/15/2023	155,000	146,475
SandRidge Energy, Inc., 7.5%, 3/15/2021	515,000	491,825
SESI LLC, 6.375%, 5/1/2019	235,000	242,638
Swift Energy Co., 7.875%, 3/1/2022	290,000	288,550
Talos Production LLC, 144A, 9.75%, 2/15/2018	410,000	389,500
Tesoro Corp., 5.375%, 10/1/2022	150,000	151,875
Venoco, Inc., 8.875%, 2/15/2019	590,000	575,250
WPX Energy, Inc., 5.25%, 1/15/2017	510,000	522,750
		18,853,719
Financials 4.4%		
AerCap Aviation Solutions BV, 6.375%, 5/30/2017	470,000	493,500
Ally Financial, Inc.:		
5.5%, 2/15/2017	385,000	402,252
8.0%, 3/15/2020 (b)	340,000	394,825
CIT Group, Inc., 5.25%, 3/15/2018	540,000	554,850
E*TRADE Financial Corp.:		
6.375%, 11/15/2019	585,000	593,775
6.75%, 6/1/2016	710,000	729,525
Hellas Telecommunications Finance SCA, 144A, 8.21%**, 7/15/2015 (PIK)* EUR	322,107	0
International Lease Finance Corp.:		
3.875%, 4/15/2018	385,000	361,900
4.625%, 4/15/2021	360,000	331,200
6.25%, 5/15/2019	320,000	328,800
8.625%, 1/15/2022 (b)	310,000	356,500
8.75%, 3/15/2017	245,000	272,869
MPT Operating Partnership LP:		
(REIT), 6.375%, 2/15/2022	185,000	194,250
(REIT), 6.875%, 5/1/2021	295,000	312,700
National Money Mart Co., 10.375%, 12/15/2016	790,000	837,400
Neuberger Berman Group LLC:		
144A, 5.625%, 3/15/2020	160,000	165,600
144A, 5.875%, 3/15/2022	265,000	270,300
		6,600,246
Health Care 5.0%		
Aviv Healthcare Properties LP, 7.75%, 2/15/2019	500,000	533,750
Biomet, Inc.:		
6.5%, 8/1/2020	355,000	365,872
6.5%, 10/1/2020 (b)	100,000	99,750
Community Health Systems, Inc.:		
5.125%, 8/15/2018	1,155,000	1,172,325
7.125%, 7/15/2020	635,000	654,050
Fresenius Medical Care U.S. Finance II, Inc.:		
144A, 5.625%, 7/31/2019	220,000	228,800
144A, 5.875%, 1/31/2022	195,000	205,237
Fresenius U.S. Finance II, Inc., 144A, 9.0%, 7/15/2015	420,000	464,100
HCA, Inc.:		
5.875%, 3/15/2022	275,000	282,219
6.5%, 2/15/2020	890,000	962,869
7.5%, 2/15/2022	605,000	670,037
Hologic, Inc., 6.25%, 8/1/2020	200,000	207,375
IMS Health, Inc., 144A, 6.0%, 11/1/2020	250,000	254,375
Physio-Control International, Inc., 144A, 9.875%, 1/15/2019	315,000	346,500
Sky Growth Acquisition Corp., 144A, 7.375%, 10/15/2020	175,000	179,375
STHI Holding Corp., 144A, 8.0%, 3/15/2018	345,000	372,600
Tenet Healthcare Corp.:		
144A, 4.375%, 10/1/2021	390,000	357,825
144A, 4.5%, 4/1/2021	55,000	51,288
		7,408,347
Industrials 10.2%		
Abengoa Finance SAU, 144A, 8.875%, 11/1/2017	190,000	176,700
Accuride Corp., 9.5%, 8/1/2018	345,000	351,037
Aguila 3 SA, 144A, 7.875%, 1/31/2018	480,000	494,400
Air Lease Corp.:		
4.75%, 3/1/2020 (b)	315,000	303,975
6.125%, 4/1/2017 (b)	445,000	460,575
Alphabet Holding Co., Inc., 7.75%, 11/1/2017 (PIK)	205,000	210,125
Armored Autogroup, Inc., 9.25%, 11/1/2018	610,000	559,675
AWAS Aviation Capital Ltd., 144A, 7.0%, 10/17/2016	391,400	407,056
BakerCorp International, Inc., 8.25%, 6/1/2019	335,000	328,300
BE Aerospace, Inc., 6.875%, 10/1/2020	180,000	194,400
Belden, Inc., 144A, 5.5%, 9/1/2022	355,000	348,787

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

	Principal Amount ($)(a)	Value ($)
Bombardier, Inc.:		
144A, 5.75%, 3/15/2022	430,000	426,775
144A, 6.125%, 1/15/2023	315,000	312,638
Casella Waste Systems, Inc., 7.75%, 2/15/2019	415,000	394,250
Clean Harbors, Inc., 5.125%, 6/1/2021	240,000	241,800
DigitalGlobe, Inc., 144A, 5.25%, 2/1/2021	160,000	153,600
Ducommun, Inc., 9.75%, 7/15/2018	305,000	333,212
DynCorp International, Inc., 10.375%, 7/1/2017	490,000	492,450
Florida East Coast Railway Corp., 8.125%, 2/1/2017	225,000	237,938
FTI Consulting, Inc., 144A, 6.0%, 11/15/2022	205,000	207,563
Garda World Security Corp., 144A, 9.75%, 3/15/2017	400,000	422,582
GenCorp, Inc., 144A, 7.125%, 3/15/2021	790,000	817,650
Huntington Ingalls Industries, Inc.:		
6.875%, 3/15/2018	280,000	299,250
7.125%, 3/15/2021 (b)	60,000	64,500
Interline Brands, Inc., 7.5%, 11/15/2018	295,000	309,750
Iron Mountain, Inc., 5.75%, 8/15/2024	245,000	229,688
Kenan Advantage Group, Inc., 144A, 8.375%, 12/15/2018	410,000	426,400
Meritor, Inc., 6.75%, 6/15/2021	195,000	186,225
Navios Maritime Holdings, Inc.:		
8.125%, 2/15/2019	410,000	388,475
8.875%, 11/1/2017	210,000	217,350
Navios South American Logistics, Inc.:		
9.25%, 4/15/2019	295,000	316,387
144A, 9.25%, 4/15/2019	55,000	58,988
Nortek, Inc., 8.5%, 4/15/2021	440,000	470,800
Ply Gem Industries, Inc., 9.375%, 4/15/2017	102,000	107,865
Rexel SA, 144A, 5.25%, 6/15/2020	275,000	274,313
Sitel LLC, 11.5%, 4/1/2018	565,000	420,925
Spirit AeroSystems, Inc.:		
6.75%, 12/15/2020	205,000	213,200
7.5%, 10/1/2017	215,000	224,675
Titan International, Inc., 7.875%, 10/1/2017	295,000	309,750
TransDigm, Inc., 144A, 7.5%, 7/15/2021 (c)	320,000	327,200
U.S. Airways Group, Inc., 6.125%, 6/1/2018 (b)	240,000	226,800
United Rentals North America, Inc.:		
5.75%, 7/15/2018	365,000	383,250
6.125%, 6/15/2023	25,000	24,875
7.375%, 5/15/2020	595,000	635,162
7.625%, 4/15/2022	595,000	644,087
Watco Companies LLC, 144A, 6.375%, 4/1/2023	155,000	154,225
Welltec AS, 144A, 8.0%, 2/1/2019	400,000	416,000
		15,205,628
Information Technology 4.7%		
Alliance Data Systems Corp., 144A, 5.25%, 12/1/2017	255,000	262,650
CDW LLC, 8.5%, 4/1/2019	1,180,000	1,268,500
CyrusOne LP, 144A, 6.375%, 11/15/2022	105,000	107,625
eAccess Ltd., 144A, 8.25%, 4/1/2018	335,000	366,825
EarthLink, Inc., 144A, 7.375%, 6/1/2020	245,000	235,200
Equinix, Inc.:		
4.875%, 4/1/2020	275,000	269,500
5.375%, 4/1/2023	725,000	710,500
7.0%, 7/15/2021	215,000	233,275
First Data Corp.:		
144A, 6.75%, 11/1/2020	940,000	956,450
144A, 7.375%, 6/15/2019	250,000	256,875
144A, 8.875%, 8/15/2020	495,000	539,550
144A, 10.625%, 6/15/2021	420,000	414,750
Freescale Semiconductor, Inc., 144A, 9.25%, 4/15/2018	630,000	678,825
Hughes Satellite Systems Corp.:		
6.5%, 6/15/2019	225,000	238,500
7.625%, 6/15/2021	230,000	244,375
IAC/InterActiveCorp., 144A, 4.75%, 12/15/2022	215,000	203,175
		6,986,575
Materials 8.4%		
APERAM:		
144A, 7.375%, 4/1/2016	215,000	208,550
144A, 7.75%, 4/1/2018	260,000	247,000
Axiall Corp., 144A, 4.875%, 5/15/2023	65,000	61,750
Berry Plastics Corp.:		
9.5%, 5/15/2018	390,000	424,125
9.75%, 1/15/2021	460,000	519,800
Bluescope Steel Ltd., 144A, 7.125%, 5/1/2018	150,000	152,250
BOE Intermediate Holding Corp., 144A, 9.0%, 11/1/2017 (PIK)	290,000	278,400
BOE Merger Corp., 144A, 9.5%, 11/1/2017 (PIK)	410,000	418,200
Clearwater Paper Corp., 7.125%, 11/1/2018	390,000	417,300
Crown Americas LLC, 6.25%, 2/1/2021	50,000	53,000
Eagle Spinco, Inc., 144A, 4.625%, 2/15/2021	130,000	124,800
Essar Steel Algoma, Inc.:		
144A, 9.375%, 3/15/2015	1,290,000	1,225,500
144A, 9.875%, 6/15/2015	195,000	150,150
Exopack Holding Corp., 10.0%, 6/1/2018	230,000	232,875
FMG Resources (August 2006) Pty Ltd.:		
144A, 6.0%, 4/1/2017 (b)	315,000	306,337
144A, 6.875%, 4/1/2022 (b)	65,000	63,050
144A, 7.0%, 11/1/2015 (b)	360,000	363,600
144A, 8.25%, 11/1/2019 (b)	270,000	278,100
FQM Akubra, Inc.:		
144A, 7.5%, 6/1/2021	610,000	584,075
144A, 8.75%, 6/1/2020	360,000	368,100

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

		Principal Amount ($)(a)	Value ($)
Hexion U.S. Finance Corp.:			
6.625%, 4/15/2020		95,000	94,763
8.875%, 2/1/2018		530,000	540,600
Huntsman International LLC:			
4.875%, 11/15/2020 (b)		230,000	227,125
8.625%, 3/15/2020		330,000	358,875
8.625%, 3/15/2021 (b)		335,000	367,662
IAMGOLD Corp., 144A, 6.75%, 10/1/2020		310,000	261,950
Kaiser Aluminum Corp., 8.25%, 6/1/2020		260,000	287,950
Novelis, Inc., 8.375%, 12/15/2017		85,000	90,100
Packaging Dynamics Corp., 144A, 8.75%, 2/1/2016		535,000	540,350
Perstorp Holding AB, 144A, 8.75%, 5/15/2017		200,000	200,000
Polymer Group, Inc., 7.75%, 2/1/2019		300,000	312,000
PolyOne Corp., 144A, 5.25%, 3/15/2023		590,000	581,150
Rain CII Carbon LLC:			
144A, 8.0%, 12/1/2018		270,000	276,750
144A, 8.25%, 1/15/2021		200,000	200,000
Sealed Air Corp.:			
144A, 5.25%, 4/1/2023		50,000	48,625
144A, 8.125%, 9/15/2019		150,000	167,250
144A, 8.375%, 9/15/2021		150,000	169,500
Tronox Finance LLC, 144A, 6.375%, 8/15/2020 (b)		255,000	240,338
Viskase Companies, Inc., 144A, 9.875%, 1/15/2018		940,000	994,050
			12,436,000

Telecommunication Services 17.4%

		Principal Amount ($)(a)	Value ($)
Altice Financing SA, 144A, 7.875%, 12/15/2019 (b)		235,000	245,575
Altice Finco SA, 144A, 9.875%, 12/15/2020		235,000	251,450
CenturyLink, Inc., Series V, 5.625%, 4/1/2020 (b)		105,000	106,050
Cincinnati Bell, Inc.:			
8.25%, 10/15/2017		1,020,000	1,063,350
8.375%, 10/15/2020		1,030,000	1,058,325
8.75%, 3/15/2018 (b)		350,000	350,437
CPI International, Inc., 8.0%, 2/15/2018		260,000	267,800
Cricket Communications, Inc., 7.75%, 10/15/2020 (b)		1,595,000	1,531,200
Digicel Group Ltd.:			
144A, 8.25%, 9/30/2020		790,000	817,650
144A, 10.5%, 4/15/2018		495,000	524,700
Digicel Ltd.:			
144A, 7.0%, 2/15/2020		200,000	202,000
144A, 8.25%, 9/1/2017		1,090,000	1,133,600
ERC Ireland Preferred Equity Ltd., 144A, 7.69%**, 2/15/2017 (PIK)*	EUR	709,137	0
Frontier Communications Corp.:			
7.125%, 1/15/2023		1,370,000	1,363,150
7.625%, 4/15/2024		110,000	110,275
8.25%, 4/15/2017		348,000	391,500
8.5%, 4/15/2020		490,000	540,225
8.75%, 4/15/2022		560,000	610,400
Intelsat Jackson Holdings SA:			
144A, 5.5%, 8/1/2023		625,000	587,500
144A, 6.625%, 12/15/2022		245,000	237,650
7.25%, 10/15/2020		1,230,000	1,291,500
7.5%, 4/1/2021		1,150,000	1,207,500
8.5%, 11/1/2019		580,000	624,950
Intelsat Luxembourg SA:			
144A, 7.75%, 6/1/2021		670,000	676,700
144A, 8.125%, 6/1/2023		105,000	108,413
Level 3 Communications, Inc., 8.875%, 6/1/2019 (b)		55,000	57,200
Level 3 Financing, Inc.:			
7.0%, 6/1/2020		750,000	748,125
8.125%, 7/1/2019		670,000	703,500
8.625%, 7/15/2020		510,000	543,150
MetroPCS Wireless, Inc.:			
6.625%, 11/15/2020		705,000	731,437
144A, 6.625%, 4/1/2023		245,000	249,287
7.875%, 9/1/2018 (b)		420,000	447,300
Millicom International Cellular SA, 144A, 4.75%, 5/22/2020		720,000	684,187
NII Capital Corp., 7.625%, 4/1/2021		305,000	237,138
Pacnet Ltd., 144A, 9.25%, 11/9/2015		434,000	434,000
SBA Communications Corp., 144A, 5.625%, 10/1/2019		200,000	198,000
Sprint Nextel Corp.:			
6.0%, 11/15/2022 (b)		365,000	357,700
9.125%, 3/1/2017		310,000	356,500
Syniverse Holdings, Inc., 9.125%, 1/15/2019		130,000	138,775
Telenet Finance V Luxembourg SCA:			
144A, 6.25%, 8/15/2022	EUR	235,000	307,417
144A, 6.75%, 8/15/2024	EUR	235,000	309,834
tw telecom holdings, Inc., 5.375%, 10/1/2022		280,000	277,900
UPCB Finance III Ltd., 144A, 6.625%, 7/1/2020		185,000	191,475
UPCB Finance V Ltd., 144A, 7.25%, 11/15/2021		230,000	243,225
UPCB Finance VI Ltd., 144A, 6.875%, 1/15/2022		300,000	310,500
Wind Acquisition Finance SA:			
144A, 6.5%, 4/30/2020		195,000	193,538
144A, 7.25%, 2/15/2018		410,000	413,075
Windstream Corp.:			
6.375%, 8/1/2023 (b)		265,000	247,775
7.0%, 3/15/2019		430,000	431,075
7.5%, 6/1/2022		170,000	173,400
7.5%, 4/1/2023		420,000	426,300
7.75%, 10/15/2020 (b)		180,000	186,300
7.75%, 10/1/2021		310,000	320,850
7.875%, 11/1/2017		495,000	543,262
8.125%, 9/1/2018		180,000	191,700
			25,955,825

Utilities 2.2%

		Principal Amount ($)(a)	Value ($)
AES Corp.:			
4.875%, 5/15/2023 (b)		95,000	88,588
8.0%, 10/15/2017		415,000	466,875
8.0%, 6/1/2020		525,000	598,500

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

	Principal Amount ($)(a)	Value ($)
Calpine Corp.:		
144A, 7.5%, 2/15/2021	436,000	465,430
144A, 7.875%, 7/31/2020	481,000	521,885
Energy Future Holdings Corp., Series Q, 6.5%, 11/15/2024	550,000	376,750
Energy Future Intermediate Holding Co., LLC:		
10.0%, 12/1/2020	125,000	136,875
11.0%, 10/1/2021	451,000	483,697
NRG Energy, Inc., 7.625%, 1/15/2018	200,000	214,000
		3,352,600
Total Corporate Bonds (Cost $132,567,397)		**133,330,520**

Loan Participations and Assignments 0.2%

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*	73,851	34,525
WP Prism, Inc., Term Loan, 6.25%, 5/31/2018	230,000	230,766
Total Loan Participations and Assignments (Cost $1,004,047)		**265,291**

Convertible Bonds 1.8%

Consumer Discretionary 0.5%

Group 1 Automotive, Inc., 3.0%, 3/15/2020	375,000	**679,219**

Materials 1.3%

GEO Specialty Chemicals, Inc., 144A, 7.5%, 3/31/2015 (PIK)	1,297,793	**2,010,022**
Total Convertible Bonds (Cost $1,652,175)		**2,689,241**

Preferred Security 0.7%

Materials

Hercules, Inc., 6.5%, 6/30/2029 (Cost $756,443)	1,135,000	**987,450**

	Units	Value ($)

Other Investments 0.2%

Consumer Discretionary

AOT Bedding Super Holdings LLC* (d) (Cost $31,000)	92	**319,939**

	Shares	Value ($)

Common Stocks 0.1%

Consumer Discretionary 0.0%

Buffets Restaurants Holdings, Inc.*	661	4,131
Trump Entertainment Resorts, Inc.*	45	0
Vertis Holdings, Inc.*	676	0
		4,131

Industrials 0.0%

Congoleum Corp.*	24,000	**0**

Materials 0.1%

GEO Specialty Chemicals, Inc.*	24,225	14,404
GEO Specialty Chemicals, Inc. 144A*	2,206	1,312
Wolverine Tube, Inc.*	7,045	127,656
		143,372
Total Common Stocks (Cost $480,469)		**147,503**

Preferred Stock 0.6%

Financials

Ally Financial, Inc. 144A, 7.0% (Cost $841,212)	915	**869,736**

Warrants 0.1%

Consumer Discretionary 0.0%

Reader's Digest Association, Inc., Expiration Date 2/19/2014*	1,115	**0**

Materials 0.1%

GEO Specialty Chemicals, Inc., Expiration Date 3/31/2015*	119,802	70,336
Hercules Trust II, Expiration Date 3/31/2029*	1,100	14,554
		84,890
Total Warrants (Cost $244,286)		**84,890**

Securities Lending Collateral 7.7%

Daily Assets Fund Institutional, 0.10% (e) (f) (Cost $11,538,751)	11,538,751	**11,538,751**

Cash Equivalents 3.6%

Central Cash Management Fund, 0.07% (e) (Cost $5,364,651)	5,364,651	**5,364,651**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $154,480,431)†	104.6	**155,597,972**
Other Assets and Liabilities, Net	(4.6)	**(6,776,228)**
Net Assets	100.0	**148,821,744**

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

The following table represents bonds and senior loans that are in default:

Securities	Coupon	Maturity Date	Principal Amount		Cost ($)	Value ($)
Alliance Mortgage Cycle Loan*	9.5%	6/15/2010	USD	700,000	700,000	0
Buffets, Inc.*	LIBOR plus 9.25%	4/22/2015	USD	73,851	72,410	34,525
ERC Ireland Preferred Equity Ltd.*	7.69%	2/15/2017	EUR	709,137	965,174	0
Fontainebleau Las Vegas Holdings LLC*	11.0%	6/15/2015	USD	490,000	490,000	0
Hellas Telecommunications Finance SCA*	8.21%	7/15/2015	EUR	322,107	92,199	0
					2,319,783	**34,525**

* 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, 2013.

† The cost for federal income tax purposes was $154,480,431. At June 30, 2013, net unrealized appreciation for all securities based on tax cost was $1,117,541. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $6,013,629 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $4,896,088.

(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 securities loaned at June 30, 2013 amounted to $10,946,630, which is 7.4% 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	319,939	0.21

(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, 2013, 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., 5.5%, 2/15/2019, BB–	46,152	11,605	34,547
6/21/2010 9/20/2013	380,000[2]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BBB–	4,906	4,658	248
6/21/2010 9/20/2013	1,230,000[3]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BBB–	15,878	(37,769)	53,647
6/21/2010 9/20/2015	560,000[4]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BBB–	53,638	(9,983)	63,621
6/21/2010 9/20/2015	175,000[5]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BBB–	16,761	(16,625)	33,386
6/21/2010 9/20/2015	320,000[1]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BBB–	30,651	(27,749)	58,400
6/21/2010 9/20/2015	100,000[3]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BBB–	9,578	(6,896)	16,474
6/20/2011 9/20/2016	575,000[4]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BBB–	72,201	34,268	37,933
3/21/2011 6/20/2016	1,085,000[6]	5.0%	Ford Motor Credit Co., LLC, 5.0%, 5/15/2018, BBB–	131,278	77,305	53,973
6/20/2011 9/20/2016	440,000[6]	5.0%	Forest Oil Corp., 7.25%, 6/15/2019, B	(4,828)	10,570	(15,398)
9/20/2011 12/20/2016	250,000[6]	5.0%	Forest Oil Corp., 7.25%, 6/15/2019, B	(5,438)	(3,390)	(2,048)

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

Effective/ Expiration Date	Notional Amount ($) (g)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (h)	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Appreciation/ (Depreciation) ($)
9/20/2011 12/20/2016	165,000[3]	5.0%	Forest Oil Corp., 7.25%, 6/15/2019, B	(3,589)	(2,238)	(1,351)
9/20/2012 12/20/2017	485,000[7]	5.0%	General Motors Corp., 3.3%, 12/20/2017, BB+	60,315	32,246	28,069
6/20/2011 9/20/2015	1,145,000[3]	5.0%	HCA, Inc., 6.375%, 1/15/2015, B–	99,058	32,403	66,655
3/21/2011 6/20/2016	610,000[5]	5.0%	HCA, Inc., 6.375%, 1/15/2015, B–	59,237	13,570	45,667
Total net unrealized appreciation						**473,823**

(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, if any.

(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 Citigroup, Inc.

3 The Goldman Sachs & Co.

4 Bank of America

5 JPMorgan Chase Securities, Inc.

6 Barclays Bank PLC

7 UBS AG

At June 30, 2013, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
EUR	1,090,440	USD	1,453,915	7/19/2013	**34,434**	Citigroup, Inc.

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.

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, 2013 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	$ —	$133,330,520	$ 0	$133,330,520
Loan Participations and Assignments	—	265,291	0	265,291
Convertible Bonds	—	679,219	2,010,022	2,689,241
Preferred Security	—	987,450	—	987,450
Other Investments	—	—	319,939	319,939
Common Stocks (i)	—	4,131	143,372	147,503
Preferred Stock	—	869,736	—	869,736
Warrants (i)	—	—	84,890	84,890
Short-Term Investments (i)	16,903,402	—	—	16,903,402
Derivatives (j)				
Credit Default Swap Contracts	—	492,620	—	492,620
Forward Foreign Currency Exchange Contracts	—	34,434	—	34,434
Total	**$ 16,903,402**	**$136,663,401**	**$ 2,558,223**	**$156,125,026**

Liabilities				
Derivatives (j)				
Credit Default Swap Contracts	$ —	$ (18,797)	$ —	$ (18,797)
Total	**$ —**	**$ (18,797)**	**$ —**	**$ (18,797)**

During the period ended June 30, 2013, the amount of transfers between Level 2 and Level 3 was $306. Investments were transferred from Level 2 to Level 3 because of the lack of observable market data due to a decrease in market activity.

Transfers between price levels are recognized at the beginning of the reporting period.

(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.

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**	**Convertible Bonds**	**Other Investments**	**Common Stocks**	**Warrants**	**Total**
Balance as of December 31, 2012	$ 155,602	$ 0	$ 1,538,014	$ 107,806	$ 139,682	$ 63,227	**$ 2,004,331**
Realized gains (loss)	6,235	—	—	—	—	—	**6,235**
Change in unrealized appreciation (depreciation)	(4,853)	0	466,539	212,133	3,690	21,663	**699,172**
Amortization of premium/accretion of discount	1,650	—	5,469	—	—	—	**7,119**
Purchases	4,768	—	—	—	—	—	**4,768**
(Sales)	(163,708)	—	—	—	—	—	**(163,708)**
Transfers into Level 3	306	—	—	—	—	—	**306**
Transfers (out) of Level 3	—	—	—	—	—	—	**—**
Balance as of June 30, 2013	**$ 0**	**$ 0**	**$ 2,010,022**	**$ 319,939**	**$ 143,372**	**$ 84,890**	**$ 2,558,223**
Net change in unrealized appreciation (depreciation) from investments still held as of June 30, 2013	**$ (4,853)**	**$ 0**	**$ 466,539**	**$ 212,133**	**$ 3,690**	**$ 21,663**	**$ 699,172**

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

Quantitative Disclosure About Significant Unobservable Inputs

Asset Class	Fair Value at 6/30/13	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Other Investments				
Consumer Discretionary	$ 319,939	Acquisition Value	Acquisition Value	3,477.60 per share
			Discount for Lack of Marketability	20%
Common Stocks				
Consumer Discretionary	$ 0	Asset Valuation	Book Value of Equity	0
	$ 0	Asset Valuation	Book Value of Equity	0
Industrials	$ 0	Asset Valuation	Book Value of Equity	0
Materials	$ 143,372	Market Approach	EV/EBITDA Multiple	5.65–6.55 (6.48)
			Discount for Lack of Marketability	25–45%
Warrants				
Consumer Discretionary	$ 0	Asset Valuation	Book Value of Equity	0
Materials	$ 14,554	Black Scholes Option Pricing Model	Implied Volatility	35%
			Discount for Lack of Marketability	20%
	$ 70,336	Market Approach	EV/EBITDA Multiple	5.65
			Discount for Lack of Marketability	45%
Loan Participations & Assignments				
Senior Loans	$ 0	Market Approach	Evaluated by Management	0
Corporate Bonds				
Consumer Discretionary	$ 0	Asset Valuation	Book Value of Equity	0
Financials	$ 0	Asset Valuation	Book Value of Equity	0
Convertible Bonds				
	$ 2,010,022	Convertible Bond Methodology	EV/EBITDA Multiple	5.65
			Discount to Public Comparable	20%
			Discount for Lack of Marketability	25%

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 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 convertible bond valuation methodology. A significant change in the value of the underlying private equity could have a material change on the fair value measurement of the convertible bond, while a significant change in the discount for lack of marketability is unlikely to result in a materially higher or lower fair value measurement.

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

Statement of Assets and Liabilities

as of June 30, 2013 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $137,577,029) — including $10,946,630 of securities loaned	$	138,694,570
Investment in Daily Assets Fund Institutional (cost $11,538,751)*		11,538,751
Investment in Central Cash Management Fund (cost $5,364,651)		5,364,651
Total investments in securities, at value (cost $154,480,431)		155,597,972
Foreign currency, at value (cost $9)		9
Deposit from broker on swap contracts		140,000
Receivable for investments sold		2,340,545
Receivable for Fund shares sold		2,448
Interest receivable		2,574,424
Unrealized appreciation on swap contracts		492,620
Unrealized appreciation on forward foreign currency exchange contracts		34,434
Upfront payments paid on swap contracts		216,625
Due from Advisor		100
Other assets		1,113
Total assets		161,400,290
Liabilities		
Cash overdraft		157,171
Payable upon return of securities loaned		11,538,751
Payable for investments purchased — when-issued/delayed delivery security		320,000
Payable for Fund shares redeemed		145,381
Payable upon return of deposit for swap contracts		140,000
Unrealized depreciation on swap contracts		18,797
Upfront payments received on swap contracts		104,650
Accrued management fee		63,185
Accrued Trustees' fees		856
Other accrued expenses and payables		89,755
Total liabilities		12,578,546
Net assets, at value	**$**	**148,821,744**
Net Assets Consist of		
Undistributed net investment income		4,450,264
Net unrealized appreciation (depreciation) on:		
Investments		1,117,541
Swap contracts		473,823
Foreign currency		34,300
Accumulated net realized gain (loss)		(41,246,261)
Paid-in capital		183,992,077
Net assets, at value	**$**	**148,821,744**
Class A		
Net Asset Value, offering and redemption price per share ($148,734,774 ÷ 22,629,085 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**6.57**
Class B		
Net Asset Value, offering and redemption price per share ($86,970 ÷ 13,144 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**6.62**

* Represents collateral on securities loaned.

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

Statement of Operations

for the six months ended June 30, 2013 (Unaudited)

Investment Income	
Interest	$ 5,706,401
Dividends	30,188
Income distributions — Central Cash Management Fund	6,557
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	19,159
Total income	5,762,305
Expenses: Management fee	433,284
Administration fee	86,657
Distribution service fee (Class B)	119
Recordkeeping fees (Class B)	2
Services to shareholders	1,111
Custodian fee	14,542
Audit and tax fees	36,140
Legal fees	7,625
Reports to shareholders	19,850
Trustees' fees and expenses	4,435
Other	23,455
Total expenses before expense reductions	627,220
Expense reductions	(1,150)
Total expenses after expense reductions	626,070
Net investment income (loss)	**5,136,235**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from: Investments	2,160,665
Swap contracts	923,458
Foreign currency	15,692
	3,099,815
Change in net unrealized appreciation (depreciation) on: Investments	(4,393,943)
Swap contracts	(61,674)
Foreign currency	20,989
	(4,434,628)
Net gain (loss)	**(1,334,813)**
Net increase (decrease) in net assets resulting from operations	**$ 3,801,422**

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, 2013 (Unaudited)	Year Ended December 31, 2012
Operations:		
Net investment income	$ 5,136,235	$ 11,527,855
Net realized gain (loss)	3,099,815	1,543,250
Change in net unrealized appreciation (depreciation)	(4,434,628)	10,498,123
Net increase (decrease) in net assets resulting from operations	3,801,422	23,569,228
Distributions to shareholders from:		
Net investment income:		
Class A	(12,380,542)	(13,517,771)
Class B	(6,491)	(7,507)
Total distributions	(12,387,033)	(13,525,278)
Fund share transactions:		
Class A		
Proceeds from shares sold	4,194,515	49,009,407
Reinvestment of distributions	12,380,542	13,517,771
Payments for shares redeemed	(37,570,438)	(63,694,430)
Net increase (decrease) in net assets from Class A share transactions	(20,995,381)	(1,167,252)
Class B		
Proceeds from shares sold	46,462	8,301
Reinvestment of distributions	6,491	7,507
Payments for shares redeemed	(52,815)	(13,053)
Net increase (decrease) in net assets from Class B share transactions	138	2,755
Increase (decrease) in net assets	(29,580,854)	8,879,453
Net assets at beginning of period	178,402,598	169,523,145
Net assets at end of period (including undistributed net investment income of $4,450,264 and $11,701,062, respectively)	**$ 148,821,744**	**$ 178,402,598**

Other Information		
Class A		
Shares outstanding at beginning of period	25,717,511	25,818,935
Shares sold	600,530	7,431,954
Shares issued to shareholders in reinvestment of distributions	1,834,154	2,118,773
Shares redeemed	(5,523,110)	(9,652,151)
Net increase (decrease) in Class A shares	(3,088,426)	(101,424)
Shares outstanding at end of period	**22,629,085**	**25,717,511**
Class B		
Shares outstanding at beginning of period	13,214	12,847
Shares sold	6,708	1,197
Shares issued to shareholders in reinvestment of distributions	955	1,168
Shares redeemed	(7,733)	(1,998)
Net increase (decrease) in Class B shares	(70)	367
Shares outstanding at end of period	**13,144**	**13,214**

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

Financial Highlights

Class A	Six Months Ended 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$ 6.93**	**$ 6.56**	**$ 6.90**	**$ 6.55**	**$ 5.30**	**$ 7.81**
Income (loss) from investment operations:						
Net investment income[a]	.20	.45	.51	.52	.51	.57
Net realized and unrealized gain (loss)	(.06)	.48	(.24)	.36	1.40	(2.29)
Total from investment operations	.14	.93	.27	.88	1.91	(1.72)
Less distributions from:						
Net investment income	(.50)	(.56)	(.61)	(.53)	(.66)	(.79)
Net asset value, end of period	**$ 6.57**	**$ 6.93**	**$ 6.56**	**$ 6.90**	**$ 6.55**	**$ 5.30**
Total Return (%)	1.87[b**]	14.91	3.84	14.00	39.99	(23.94)[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	149	178	169	195	197	154
Ratio of expenses before expense reductions (%)	.72*	.72	.72	.72	.67	.80
Ratio of expenses after expense reductions (%)	.72*	.72	.72	.72	.67	.79
Ratio of net investment income (%)	5.93*	6.68	7.59	7.90	8.81	8.42
Portfolio turnover rate (%)	29**	58	59	93	66	38

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 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$ 6.97**	**$ 6.59**	**$ 6.93**	**$ 6.58**	**$ 5.31**	**$ 7.81**
Income (loss) from investment operations:						
Net investment income[a]	.20	.43	.49	.50	.49	.53
Net realized and unrealized gain (loss)	(.06)	.49	(.24)	.36	1.42	(2.27)
Total from investment operations	.14	.92	.25	.86	1.91	(1.74)
Less distributions from:						
Net investment income	(.49)	(.54)	(.59)	(.51)	(.64)	(.76)
Net asset value, end of period	**$ 6.62**	**$ 6.97**	**$ 6.59**	**$ 6.93**	**$ 6.58**	**$ 5.31**
Total Return (%)	1.75[b**]	14.70[b]	3.57	13.64	39.64	(24.13)[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	.1	.1	.1	.1	.2	.1
Ratio of expenses before expense reductions (%)	1.00*	.99	.99	.99	.94	1.25
Ratio of expenses after expense reductions (%)	.97*	.99	.99	.99	.94	1.23
Ratio of net investment income (%)	5.67*	6.42	7.33	7.63	8.54	7.98
Portfolio turnover rate (%)	29**	58	59	93	66	38

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.

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 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.

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. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of June 30, 2013, the Fund had securities on loan with a gross value of $10,946,630. The value of the related collateral, $11,538,751, exceeded the value of the securities loaned at period end.

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 incurred post-enactment 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, 2012, the Fund had a net tax basis capital loss carryforward of approximately $44,347,000, including $39,235,000 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 ($17,301,000) and December 31, 2017 ($17,232,000), the respective expiration dates, whichever occurs first; and approximately $5,112,000 of post-enactment long-term losses, which may be applied against realized net taxable capital gains indefinitely.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2012 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 from net investment income of the Fund, if any, are 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 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 based upon the relative net assets or other appropriate measures.

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 ex-dividend date. 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. The Fund may enter into credit default swap contracts to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer or to hedge against the risk of a credit event on debt 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. 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 is 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. For the six months ended June 30, 2013, the Fund entered into credit default swap contracts to gain exposure to the underlying issuer's credit quality characteristics.

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, 2013 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, the Fund's investment in credit default swap contracts sold had a total notional value generally indicative of a range from $7,890,000 to $20,890,000.

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, 2013, 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, 2013 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, 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 $1,454,000 to $3,344,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from $0 to approximately $2,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2013 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivative	**Forward Contracts**	**Swap Contracts**	**Total**
Credit Contracts (a)	$ —	$ 492,620	$ 492,620
Foreign Exchange Contracts (b)	34,434	—	34,434
	$ 34,434	**$ 492,620**	**$ 527,054**

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

(a) Unrealized appreciation on swap contracts

(b) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivative	**Swap Contracts**
Credit Contracts (a)	$ (18,797)

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

(a) Unrealized depreciation on swap 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, 2013 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)	$ —	$ 923,458	$ 923,458
Foreign Exchange Contracts (b)	18,560	—	18,560
	$ 18,560	**$ 923,458**	**$ 942,018**

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)	$ —	$ (61,674)	$ (61,674)
Foreign Exchange Contracts (b)	21,848	—	21,848
	$ 21,848	**$ (61,674)**	**$ (39,826)**

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)

As of June 30, 2013, the Fund has transactions subject to enforceable master netting agreements. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by derivative type, including any collateral exposure, is included in the following tables:

Counterparty	**Gross Amounts of Assets Presented in the Statement of Assets and Liabilities (a)**	**Financial Instruments and Derivatives Available for Offset**	**Collateral Received (b)**	**Net Amount of Derivative Assets**
Bank of America	$ 101,554	$ —	$ —	$ 101,554
Barclays Bank PLC	53,973	(17,446)	—	36,527
Citigroup, Inc.	34,682	—	—	34,682
Credit Suisse	92,947	—	—	92,947
The Goldman Sachs & Co.	136,776	(1,351)	—	135,425
JPMorgan Chase Securities, Inc.	79,053	—	(79,053)	—
UBS AG	28,069	—	—	28,069
	$ 527,054	**$ (18,797)**	**$ (79,053)**	**$ 429,204**

Counterpartyb	**Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities (a)**	**Financial Instruments and Derivatives Available for Offset**	**Collateral Pledged**	**Net Amount of Derivative Liabilities**
Barclays Bank PLC	$ 17,446	$ (17,446)	$ —	$ —
The Goldman Sachs & Co.	1,351	(1,351)	—	—
	$ 18,797	**$ (18,797)**	**$ —**	**$ —**

(a) Swap contracts and forward foreign currency exchange contracts are netted.

(b) The actual collateral received and/or pledged may be more than the amounts shown.

C. Purchases and Sales of Securities

During the six months ended June 30, 2013, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury securities) aggregated $45,935,040 and $61,881,044, 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%

For the period from January 1, 2013 through September 30, 2013, 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	.72%
Class B	.97%

Accordingly, for the six months ended June 30, 2013, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $1,003, and the amount charged aggregated $432,281, which 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, 2013, the Administration Fee was $86,657, of which $12,838 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, 2013, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	Total Aggregated	Waived
Class A	$ 134	$ 134
Class B	11	11
	$ 145	**$ 145**

In addition, for the six months ended June 30, 2013, the Advisor reimbursed $2 of non-affiliated recordkeeping fees for Class B shares.

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, 2013, the Distribution Service Fee aggregated $119, 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, 2013, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $9,050, of which $8,517 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 Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and DWS Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and DWS Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that DWS Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in DWS Variable NAV Money Fund.

Security Lending Fees. Deutsche Bank AG serves as lending agent for the Fund. For the six months ended June 30, 2013, the Fund incurred lending agent fees to Deutsche Bank AG for the amount of $2,129.

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, 2013, 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, 2013.

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, 2013 to June 30, 2013).

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, 2013

Actual Fund Return	Class A	Class B
Beginning Account Value 1/1/13	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,018.70	$1,017.50
Expenses Paid per $1,000*	$ 3.60	$ 4.85
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/13	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,021.22	$1,019.98
Expenses Paid per $1,000*	$ 3.61	$ 4.86

* 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 181 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS High Income VIP	.72%	.97%

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.

For an analysis of the fees associated with an investment in the Fund or similar funds, please refer to http://apps.finra.org/fundanalyzer/1/fa.aspx.

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 17, 2012

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 2012, 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, 2010 and 2011.

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 103 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.

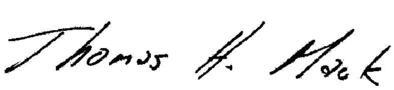
Complex-Level Considerations

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 "fallout" 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 considered how aggregated DWS Fund performance measures relative to appropriate peers had varied by asset class and over time.
- 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.

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DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2HI-3 (R-028385-2 8/13)

JUNE 30, 2013

SEMIANNUAL REPORT

DWS VARIABLE SERIES I

DWS International 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.

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 the Deutsche Asset & Wealth Management division of Deutsche Bank AG.

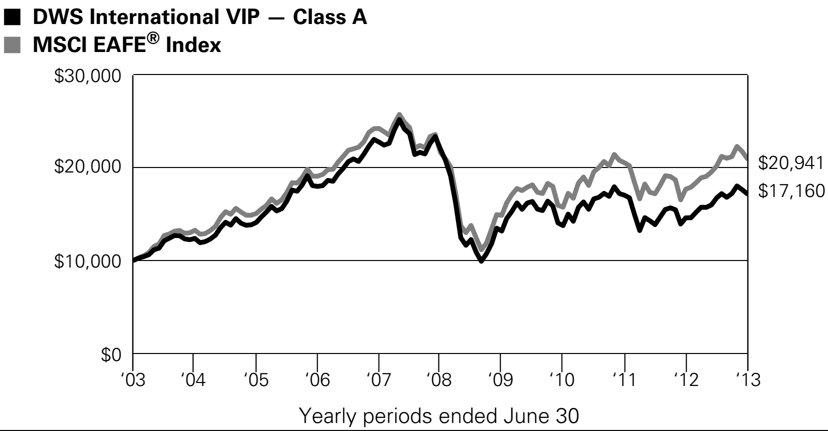
Performance Summary

June 30, 2013 (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, 2013 are 0.98% and 1.26% 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



MSCI EAFE Index is an unmanaged index that tracks international stock performance in the 22 developed markets of Europe, Australasia and the Far East. Returns reflect reinvestment of dividends net of withholding taxes. 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	$10,284	$11,779	$12,498	$7,804	$17,160
	Average annual total return	2.84%	17.79%	7.72%	–4.84%	5.55%
MSCI EAFE® Index	Growth of $10,000	$10,410	$11,862	$13,325	$9,688	$20,941
	Average annual total return	4.10%	18.62%	10.04%	–0.63%	7.67%

DWS International VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,281	$11,758	$12,407	$7,712	$16,683
	Average annual total return	2.81%	17.58%	7.45%	–5.06%	5.25%
MSCI EAFE® Index	Growth of $10,000	$10,410	$11,862	$13,325	$9,688	$20,941
	Average annual total return	4.10%	18.62%	10.04%	–0.63%	7.67%

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)	**6/30/13**	**12/31/12**
Common Stocks	97%	100%
Cash Equivalents	3%	0%
Preferred Stocks	0%	—
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/13**	**12/31/12**
Continental Europe	53%	50%
Japan	23%	24%
United Kingdom	14%	13%
Asia (excluding Japan)	5%	6%
Australia	4%	6%
Other	1%	1%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/13**	**12/31/12**
Financials	23%	27%
Industrials	16%	21%
Consumer Discretionary	12%	11%
Telecommunication Services	9%	10%
Materials	8%	6%
Consumer Staples	8%	2%
Utilities	8%	12%
Health Care	7%	0%
Information Technology	6%	7%
Energy	3%	4%
	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

Thomas Voecking
Anna Wallentin
Juergen Foerster
Johannes Prix, PhD
Portfolio Managers

Investment Portfolio

	Shares	Value ($)
Common Stocks 95.9%		
Australia 3.8%		
Australia & New Zealand Banking Group Ltd.	61,700	1,601,467
BHP Billiton Ltd.	69,500	2,002,657
Coca-Cola Amatil Ltd.	36,000	416,878
Lend Lease Group	40,000	303,566
Macquarie Group Ltd.	10,300	390,638
Rio Tinto Ltd.	8,300	394,229
(Cost $5,348,620)		**5,109,435**
Belgium 0.3%		
Anheuser-Busch InBev NV (Cost $412,423)	4,300	**381,475**
Denmark 0.9%		
Coloplast AS "B" (Cost $1,130,982)	21,400	**1,197,766**
Finland 1.1%		
Fortum Oyj (Cost $1,334,079)	75,000	**1,401,052**
France 6.8%		
Dassault Systemes SA	34,900	4,269,283
European Aeronautic Defence & Space Co.	5,800	308,416
L'Oreal SA	13,500	2,207,275
Publicis Groupe	10,000	709,104
Sanofi	14,700	1,514,939
(Cost $6,885,256)		**9,009,017**
Germany 12.4%		
Adidas AG	51,500	5,566,280
BASF SE	32,100	2,866,953
Bayer AG (Registered)	5,100	543,694
Beiersdorf AG	6,700	584,206
Continental AG	3,000	399,730
Deutsche Post AG (Registered)	85,000	2,112,322
Hannover Rueckversicherung SE (Registered)	7,700	553,387
HeidelbergCement AG	6,800	457,203
Muenchener Rueckversicherungs-Gesellschaft AG (Registered)	9,800	1,799,532
Siemens AG (Registered)	12,500	1,263,033
Suedzucker AG	14,000	433,350
(Cost $13,228,308)		**16,579,690**
Hong Kong 5.0%		
BOC Hong Kong (Holdings) Ltd.	1,785,000	5,451,524
Link REIT (REIT)	82,000	400,830
Noble Group Ltd.	970,000	742,258
(Cost $6,073,737)		**6,594,612**
Italy 3.9%		
Snam SpA (Cost $4,886,999)	1,130,000	**5,145,341**
Japan 21.7%		
Bridgestone Corp.	74,500	2,539,346
Canon, Inc. (a)	56,800	1,865,522
Daiwa House Industry Co., Ltd.	21,000	391,976
FANUC Corp.	31,000	4,495,222
Fast Retailing Co., Ltd.	10,500	3,541,887
Hitachi Ltd.	192,000	1,233,352
Japan Tobacco, Inc.	12,000	424,122
JGC Corp.	55,000	1,979,956
Keyence Corp.	1,300	414,897
Marubeni Corp.	280,000	1,872,001
Mitsubishi Estate Co., Ltd.	122,000	3,249,211
Mitsubishi Heavy Industries Ltd.	92,000	511,176
Mitsui & Co., Ltd.	140,000	1,759,016
Mizuho Financial Group, Inc.	199,000	414,191
Nabtesco Corp.	99,200	2,063,639
Nikon Corp.	20,000	466,690
SoftBank Corp.	8,600	502,141
Sumitomo Mitsui Financial Group, Inc.	9,400	431,306
Sumitomo Realty & Development Co., Ltd.	13,300	530,450
Suzuki Motor Corp.	10,600	244,460
(Cost $25,174,938)		**28,930,561**
Netherlands 8.2%		
Aegon NV	60,000	400,556
Akzo Nobel NV	11,700	657,204
ASML Holding NV	5,400	423,651
ING Groep NV (CVA)*	550,357	5,028,995
Koninklijke DSM NV	6,000	390,363
Royal Dutch Shell PLC "B"	120,000	3,968,493
(Cost $9,765,220)		**10,869,262**
Norway 2.5%		
DnB ASA	207,576	2,998,794
Telenor ASA	19,000	376,647
(Cost $2,540,231)		**3,375,441**
Singapore 0.6%		
United Overseas Bank Ltd. (Cost $848,648)	55,000	**857,932**
Spain 0.5%		
Inditex SA (Cost $809,189)	5,800	**715,445**
Sweden 5.1%		
SKF AB "B"	16,000	372,882
Swedbank AB "A"	66,000	1,506,304
Swedish Match AB	7,700	272,220
TeliaSonera AB	724,000	4,704,132
(Cost $6,271,176)		**6,855,538**
Switzerland 9.1%		
Cie Financiere Richemont SA "A"	5,000	438,608
Nestle SA (Registered)	20,000	1,308,129
Roche Holding AG (Genusschein)	24,000	5,946,825
Sika AG (Bearer)	180	464,738
Swatch Group AG (Registered)	2,600	243,945
Swiss Life Holding AG (Registered)*	2,100	339,774
Syngenta AG (Registered)	8,550	3,334,399
(Cost $11,615,511)		**12,076,418**
United Kingdom 14.0%		
Barclays PLC	141,000	604,431
British American Tobacco PLC	19,300	991,121
Capita PLC	212,000	3,123,557
Centrica PLC	526,000	2,886,756
Diageo PLC	64,700	1,855,805
Inmarsat PLC	180,000	1,847,286

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

	Shares	Value ($)
Old Mutual PLC	620,000	1,701,640
SABMiller PLC	27,200	1,308,829
Vodafone Group PLC	1,373,000	3,940,122
WPP PLC	25,000	427,114
(Cost $16,570,517)		**18,686,661**
Total Common Stocks (Cost $112,895,834)		**127,785,646**

Preferred Stock 0.2%

Germany

Henkel AG & Co. KGaA (Cost $257,406)	3,000	**281,509**

	Shares	Value ($)

Securities Lending Collateral 1.5%

Daily Assets Fund Institutional, 0.10% (b) (c) (Cost $1,958,985)	1,958,985	**1,958,985**

Cash Equivalents 3.3%

Central Cash Management Fund, 0.07% (b) (Cost $4,367,248)	4,367,248	**4,367,248**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $119,479,473)†	100.9	**134,393,388**
Other Assets and Liabilities, Net	(0.9)	**(1,164,487)**
Net Assets	100.0	**133,228,901**

* Non-income producing security.

† The cost for federal income tax purposes was $120,823,547. At June 30, 2013, net unrealized appreciation for all securities based on tax cost was $13,569,841. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $17,473,216 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,903,375.

(a) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of securities loaned at June 30, 2013 amounted to $1,862,238, which is 1.4% 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.

CVA: Certificaten Van Aandelen (Certificate of Stock)

REIT: Real Estate Investment Trust

At June 30, 2013, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
S&P 500 E-Mini Index	USD	9/20/2013	70	5,597,550	**(120,750)**

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.

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, 2013 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)				
Australia	$ —	$ 5,109,435	$ —	$ 5,109,435
Belgium	—	381,475	—	381,475
Denmark	—	1,197,766	—	1,197,766
Finland	—	1,401,052	—	1,401,052
France	—	9,009,017	—	9,009,017
Germany	—	16,579,690	—	16,579,690
Hong Kong	—	6,594,612	—	6,594,612
Italy	—	5,145,341	—	5,145,341
Japan	—	28,930,561	—	28,930,561
Netherlands	—	10,869,262	—	10,869,262
Norway	—	3,375,441	—	3,375,441
Singapore	—	857,932	—	857,932
Spain	—	715,445	—	715,445
Sweden	—	6,855,538	—	6,855,538
Switzerland	—	12,076,418	—	12,076,418
United Kingdom	—	18,686,661	—	18,686,661
Preferred Stock				
Germany	—	281,509	—	281,509
Short-Term Investments (d)	6,326,233	—	—	6,326,233
Total	**$ 6,326,233**	**$128,067,155**	**$ —**	**$134,393,388**

Liabilities				
Derivatives (e)				
Futures Contracts	$ (120,750)	$ —	$ —	$ (120,750)
Total	**$ (120,750)**	**$ —**	**$ —**	**$ (120,750)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2013.

(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, 2013 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $113,153,240) — including $1,862,238 of securities loaned	$	128,067,155
Investment in Daily Assets Fund Institutional (cost $1,958,985)*		1,958,985
Investment in Central Cash Management Fund (cost $4,367,248)		4,367,248
Total investments, at value (cost $119,479,473)		134,393,388
Foreign currency, at value (cost $237,431)		235,433
Deposit with broker for futures contracts		245,000
Receivable for Fund shares sold		18,786
Dividends receivable		281,502
Interest receivable		3,315
Foreign taxes recoverable		261,737
Other assets		1,486
Total assets		135,440,647

Liabilities		
Payable upon return of securities loaned		1,958,985
Payable for Fund shares redeemed		54,004
Payable for variation margin on futures contracts		25,550
Accrued Trustees' fees		2,085
Accrued management fee		88,042
Other accrued expenses and payables		83,080
Total liabilities		2,211,746
Net assets, at value	**$**	**133,228,901**

Net Assets Consist of		
Undistributed net investment income		1,221,132
Net unrealized appreciation (depreciation) on:		
Investments		14,913,915
Futures		(120,750)
Foreign currency		(1,523)
Accumulated net realized gain (loss)		(136,549,605)
Paid-in capital		253,765,732
Net assets, at value	**$**	**133,228,901**
Class A		
Net Asset Value, offering and redemption price per share ($132,969,216 ÷ 17,158,555 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**7.75**
Class B		
Net Asset Value, offering and redemption price per share ($259,685 ÷ 33,424 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**7.77**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2013 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $284,898)	$	2,947,336
Income distributions — Central Cash Management Fund		4,352
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		85,925
Total income		3,037,613
Expenses:		
Management fee		712,435
Administration fee		90,182
Services to shareholders		1,861
Custodian fee		29,283
Distribution service fee (Class B)		343
Professional fees		31,848
Reports to shareholders		23,951
Trustees' fees and expenses		4,409
Other		10,686
Total expenses		904,998
Net investment income (loss)		**2,132,615**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		12,557,354
Futures		978,247
Foreign currency		(209,117)
		13,326,484
Change in net unrealized appreciation (depreciation) on:		
Investments		(7,667,770)
Futures		(155,688)
Foreign currency		63,930
		(7,759,528)
Net gain (loss)		**5,566,956**
Net increase (decrease) in net assets resulting from operations	**$**	**7,699,571**

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, 2013 (Unaudited)	Year Ended December 31, 2012
Operations:		
Net investment income (loss)	$ 2,132,615	$ 6,560,034
Net realized gain (loss)	13,326,484	(18,682,583)
Change in net unrealized appreciation (depreciation)	(7,759,528)	53,381,763
Net increase (decrease) in net assets resulting from operations	7,699,571	41,259,214
Distributions to shareholders from:		
Net investment income:		
Class A	(7,421,568)	(4,756,093)
Class B	(14,321)	(4,778)
Total distributions	(7,435,889)	(4,760,871)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,301,639	8,058,394
Reinvestment of distributions	7,421,568	4,756,093
Payments for shares redeemed	(108,121,619)	(29,986,864)
Net increase (decrease) in net assets from Class A share transactions	(97,398,412)	(17,172,377)
Class B		
Proceeds from shares sold	18,869	38,387
Reinvestment of distributions	14,321	4,778
Payments for shares redeemed	(47,875)	(40,070)
Net increase (decrease) in net assets from Class B share transactions	(14,685)	3,095
Increase (decrease) in net assets	(97,149,415)	19,329,061
Net assets at beginning of period	230,378,316	211,049,255
Net assets at end of period (including undistributed net investment income of $1,221,132 and $6,524,406, respectively)	**$ 133,228,901**	**$ 230,378,316**

Other Information		
Class A		
Shares outstanding at beginning of period	28,915,018	31,267,358
Shares sold	407,070	1,102,311
Shares issued to shareholders in reinvestment of distributions	930,021	650,628
Shares redeemed	(13,093,554)	(4,105,279)
Net increase (decrease) in Class A shares	(11,756,463)	(2,352,340)
Shares outstanding at end of period	**17,158,555**	**28,915,018**
Class B		
Shares outstanding at beginning of period	35,208	34,893
Shares sold	2,342	5,248
Shares issued to shareholders in reinvestment of distributions	1,790	652
Shares redeemed	(5,916)	(5,585)
Net increase (decrease) in Class B shares	(1,784)	315
Shares outstanding at end of period	**33,424**	**35,208**

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

Financial Highlights

Class A	Six Months Ended 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$ 7.96**	**$ 6.74**	**$ 8.22**	**$ 8.26**	**$ 6.52**	**$15.01**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.10	.22	.15	.13	.12	.29[c]
Net realized and unrealized gain (loss)	.14	1.16	(1.49)	(.00)***	1.93	(6.46)
Total from investment operations	.24	1.38	(1.34)	.13	2.05	(6.17)
Less distributions from:						
Net investment income	(.45)	(.16)	(.14)	(.17)	(.31)	(.17)
Net realized gains	—	—	—	—	—	(2.15)
Total distributions	(.45)	(.16)	(.14)	(.17)	(.31)	(2.32)
Net asset value, end of period	**$ 7.75**	**$ 7.96**	**$ 6.74**	**$ 8.22**	**$ 8.26**	**$ 6.52**
Total Return (%)	2.84**	20.65	(16.67)	1.62[b]	33.52	(48.21)[b,d]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	133	230	211	288	344	297
Ratio of expenses before expense reductions (%)	1.00*	.98	1.00	.99	.94	1.01
Ratio of expenses after expense reductions (%)	1.00*	.98	1.00	.99	.94	.97
Ratio of net investment income (loss) (%)	2.36*	2.99	1.98	1.68	1.69	2.74[c]
Portfolio turnover rate (%)	49**	85	174	228	81	123

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 per share and 0.82% of average daily net assets for the year ended December 31, 2008.

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.

Class B	Six Months Ended 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$ 7.96**	**$ 6.75**	**$ 8.22**	**$ 8.26**	**$ 6.52**	**$14.98**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.11	.20	.13	.11	.10	.23[c]
Net realized and unrealized gain (loss)	.13	1.15	(1.48)	(.00)***	1.94	(6.43)
Total from investment operations	.24	1.35	(1.35)	.11	2.04	(6.20)
Less distributions from:						
Net investment income	(.43)	(.14)	(.12)	(.15)	(.30)	(.11)
Net realized gains	—	—	—	—	—	(2.15)
Total distributions	(.43)	(.14)	(.12)	(.15)	(.30)	(2.26)
Net asset value, end of period	**$ 7.77**	**$ 7.96**	**$ 6.75**	**$ 8.22**	**$ 8.26**	**$ 6.52**
Total Return (%)	2.81**	20.13	(16.77)	1.33[b]	32.89	(48.25)[b,d]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	.26	.28	.24	.36	.50	.40
Ratio of expenses before expense reductions (%)	1.28*	1.26	1.28	1.26	1.22	1.33
Ratio of expenses after expense reductions (%)	1.28*	1.26	1.28	1.26	1.22	1.28
Ratio of net investment income (loss) (%)	2.80*	2.73	1.70	1.41	1.42	2.42[c]
Portfolio turnover rate (%)	49**	85	174	228	81	123

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 per share and 0.82% of average daily net assets for the year ended December 31, 2008.

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.

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, 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. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of June 30, 2013, the Fund had securities on loan with a gross value of $1,862,238. The value of the related collateral, $1,958,985, exceeded the value of the securities loaned at period end.

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, the Fund may be subject to taxes imposed by the governments of countries in which it invests and are generally based on income and/or capital gains earned or repatriated. 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. Tax liabilities realized as a result of security sales are reflected as a component of net realized gain/loss on investments.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses incurred post-enactment 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, 2012, the Fund had a net tax basis capital loss carryforward of approximately $149,313,000, including $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 ($25,765,000) and December 31, 2017 ($98,822,000), the respective expiration dates, whichever occurs first; and approximately $24,726,000 of post-enactment losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($15,693,000) and long-term losses ($9,033,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2012 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 from net investment income of the Fund, if any, are 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, 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 based upon the relative net assets or other appropriate measures.

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, 2013, the Fund entered into futures contracts 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, 2013 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $4,615,000 to $6,641,000.

Liability Derivative	**Futures Contracts**
Equity Contracts (a)	$ (120,750)

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, 2013 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)	$ 978,247

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)	$ (155,688)

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, 2013, purchases and sales of investment securities (excluding short-term investments) aggregated $82,355,181 and $185,591,121, 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, 2013, 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.

For the period from January 1, 2013 through April 30, 2014 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	1.03%
Class B	1.28%

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, 2013, the Administration Fee was $90,182, of which $11,145 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, 2013, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at June 30, 2013**
Class A	$ 342	$ 113
Class B	40	13
	$ 382	**$ 126**

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, 2013, the Distribution Service Fee aggregated $343, of which $54 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, 2013, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $7,702, all of which 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 Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and DWS Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and DWS Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that DWS Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in DWS Variable NAV Money Fund.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the six months ended June 30, 2013, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $9,557.

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 23%, 12% and 12%.

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, 2013.

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, 2013 to June 30, 2013).

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, 2013

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/13	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,028.40	$1,028.10
Expenses Paid per $1,000*	$ 5.03	$ 6.44
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/13	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,019.84	$1,018.45
Expenses Paid per $1,000*	$ 5.01	$ 6.41

* 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 181 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series I — DWS International VIP	1.00%	1.28%

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.

For an analysis of the fees associated with an investment in the Fund or similar funds, please refer to http://apps.finra.org/fundanalyzer/1/fa.aspx.

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 17, 2012

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 2012, 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, 2010 and 2011.

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 103 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 "fallout" 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 considered how aggregated DWS Fund performance measures relative to appropriate peers had varied by asset class and over time.
- 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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VS1int-3 (R-028378-2 8/13)

JUNE 30, 2013

SEMIANNUAL REPORT

DWS VARIABLE SERIES II

DWS Large 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.

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. Stocks may decline in value. See the prospectus for details.

DWS Investments is part of the Deutsche Asset & Wealth Management division of Deutsche Bank AG.

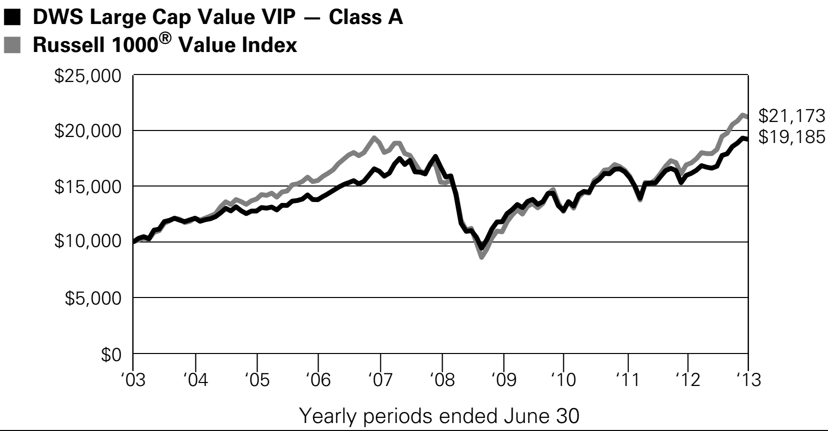
Performance Summary

June 30, 2013 (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, 2013 are 0.78% and 1.09% 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 Large Cap Value VIP



The Russell 1000® Value Index is an unmanaged index that consists of those stocks in the Russell 1000® Index with less-than-average growth orientation. The Russell 1000® Index is an unmanaged price-only index of the 1,000 largest capitalized companies that are domiciled in the U.S. and whose common stocks are traded.

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

Comparative Results

DWS Large Cap Value VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,450	$12,030	$15,003	$11,484	$19,185
	Average annual total return	14.50%	20.30%	14.48%	2.81%	6.73%
Russell 1000® Value Index	Growth of $10,000	$11,590	$12,532	$16,645	$13,811	$21,173
	Average annual total return	15.90%	25.32%	18.51%	6.67%	7.79%

DWS Large Cap Value VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$11,429	$11,987	$14,867	$11,306	$18,536
	Average annual total return	14.29%	19.87%	14.13%	2.49%	6.37%
Russell 1000® Value Index	Growth of $10,000	$11,590	$12,532	$16,645	$13,811	$21,173
	Average annual total return	15.90%	25.32%	18.51%	6.67%	7.79%

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)	**6/30/13**	**12/31/12**
Common Stocks	99%	98%
Cash Equivalents	1%	1%
Exchange-Traded Fund	—	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/13**	**12/31/12**
Financials	24%	24%
Health Care	15%	14%
Energy	13%	17%
Consumer Staples	11%	8%
Information Technology	10%	6%
Consumer Discretionary	8%	9%
Industrials	7%	10%
Utilities	6%	4%
Materials	3%	5%
Telecommunication Services	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

Thomas Schuessler, PhD
Lead Portfolio Manager

Peter Steffen, CFA
Oliver Pfeil, PhD
Portfolio Managers

	Shares	Value ($)
Common Stocks 99.3%		
Consumer Discretionary 8.1%		
Automobiles 1.5%		
Ford Motor Co.	400,000	**6,188,000**
Diversified Consumer Services 0.8%		
DeVry, Inc. (a)	55,000	1,706,100
H&R Block, Inc.	55,000	1,526,250
		3,232,350
Hotels, Restaurants & Leisure 0.4%		
Carnival Corp.	50,000	**1,714,500**
Household Durables 0.3%		
Jarden Corp.*	30,000	**1,312,500**
Internet & Catalog Retail 0.2%		
Expedia, Inc.	10,000	**601,500**
Leisure Equipment & Products 0.4%		
Hasbro, Inc. (a)	40,000	**1,793,200**
Media 3.7%		
Comcast Corp. "A"	135,000	5,653,800
Meredith Corp. (a)	30,000	1,431,000
News Corp. "A"	60,000	1,956,000
Time Warner, Inc.	40,000	2,312,800
Walt Disney Co. (a)	40,000	2,526,000
Washington Post Co. "B" (a)	2,500	1,209,425
		15,089,025
Specialty Retail 0.8%		
Lowe's Companies, Inc.	40,000	1,636,000
Staples, Inc. (a)	90,000	1,427,400
		3,063,400
Consumer Staples 10.5%		
Beverages 1.7%		
Beam, Inc.	25,000	1,577,750
PepsiCo, Inc.	65,000	5,316,350
		6,894,100
Food & Staples Retailing 3.2%		
CVS Caremark Corp.	77,500	4,431,450
Sysco Corp. (a)	45,000	1,537,200
Wal-Mart Stores, Inc.	62,500	4,655,625
Walgreen Co.	50,000	2,210,000
		12,834,275
Food Products 1.5%		
Ingredion, Inc.	30,000	1,968,600
Kellogg Co. (a)	67,500	4,335,525
		6,304,125
Household Products 2.1%		
Procter & Gamble Co.	112,500	**8,661,375**
Tobacco 2.0%		
Altria Group, Inc.	120,000	4,198,800
Philip Morris International, Inc.	27,500	2,382,050
Universal Corp. (a)	25,000	1,446,250
		8,027,100
Energy 12.9%		
Energy Equipment & Services 1.5%		
Halliburton Co.	80,000	3,337,600
Helmerich & Payne, Inc. (a)	40,000	2,498,000
		5,835,600
Oil, Gas & Consumable Fuels 11.4%		
Anadarko Petroleum Corp.	25,000	2,148,250
Apache Corp.	40,000	3,353,200
Chevron Corp.	95,000	11,242,300
ConocoPhillips	45,000	2,722,500
Exxon Mobil Corp.	157,500	14,230,125
Marathon Oil Corp.	65,000	2,247,700
Occidental Petroleum Corp.	55,000	4,907,650
Phillips 66	40,000	2,356,400
Suncor Energy, Inc.	65,000	1,916,850
Valero Energy Corp.	35,000	1,216,950
		46,341,925
Financials 23.3%		
Capital Markets 3.4%		
Ameriprise Financial, Inc.	40,000	3,235,200
Bank of New York Mellon Corp.	70,000	1,963,500
BlackRock, Inc.	7,000	1,797,950
Oaktree Capital Group LLC	30,000	1,576,500
The Goldman Sachs Group, Inc.	33,000	4,991,250
		13,564,400
Commercial Banks 4.8%		
BankUnited, Inc.	50,000	1,300,500
Huntington Bancshares, Inc.	150,000	1,182,000
PNC Financial Services Group, Inc.	100,000	7,292,000
U.S. Bancorp.	90,000	3,253,500
Wells Fargo & Co.	160,000	6,603,200
		19,631,200
Consumer Finance 1.3%		
Capital One Financial Corp.	85,000	**5,338,850**
Diversified Financial Services 5.9%		
Bank of America Corp.	475,000	6,108,500
Citigroup, Inc.	90,000	4,317,300
JPMorgan Chase & Co.	200,000	10,558,000
The NASDAQ OMX Group, Inc.	95,000	3,115,050
		24,098,850
Insurance 7.3%		
ACE Ltd.	20,000	1,789,600
Alleghany Corp.*	5,000	1,916,550
Allstate Corp.	40,000	1,924,800
Aon PLC	25,000	1,608,750
Chubb Corp.	25,000	2,116,250
CNA Financial Corp.	40,000	1,304,800
Fidelity National Financial, Inc. "A"	125,000	2,976,250
HCC Insurance Holdings, Inc.	40,000	1,724,400
Lincoln National Corp.	65,000	2,370,550
MetLife, Inc.	85,000	3,889,600
PartnerRe Ltd.	25,000	2,264,000
Principal Financial Group, Inc. (a)	40,000	1,498,000
Prudential Financial, Inc.	32,500	2,373,475
Validus Holdings Ltd.	50,000	1,806,000
		29,563,025
Thrifts & Mortgage Finance 0.6%		
Home Loan Servicing Solutions Ltd.	50,000	1,198,500
New York Community Bancorp., Inc. (a)	85,000	1,190,000
		2,388,500
Health Care 15.2%		
Biotechnology 0.3%		
Amgen, Inc.	12,500	**1,233,250**

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

	Shares	Value ($)
Health Care Equipment & Supplies 2.6%		
Baxter International, Inc.	25,000	1,731,750
Becton, Dickinson & Co.	15,000	1,482,450
C.R. Bard, Inc. (a)	15,000	1,630,200
Medtronic, Inc.	70,000	3,602,900
St. Jude Medical, Inc.	50,000	2,281,500
		10,728,800
Health Care Providers & Services 3.3%		
Aetna, Inc.	40,000	2,541,600
HCA Holdings, Inc.	40,000	1,442,400
McKesson Corp.	20,000	2,290,000
Owens & Minor, Inc. (a)	35,000	1,184,050
Select Medical Holdings Corp.	140,000	1,148,000
UnitedHealth Group, Inc.	40,000	2,619,200
WellPoint, Inc.	25,000	2,046,000
		13,271,250
Life Sciences Tools & Services 0.4%		
Agilent Technologies, Inc.	35,000	**1,496,600**
Pharmaceuticals 8.6%		
Bristol-Myers Squibb Co.	50,000	2,234,500
Eli Lilly & Co.	37,500	1,842,000
Forest Laboratories, Inc.*	25,000	1,025,000
Hospira, Inc.* (a)	30,000	1,149,300
Johnson & Johnson	97,500	8,371,350
Merck & Co., Inc. (a)	185,000	8,593,250
Pfizer, Inc.	360,000	10,083,600
Teva Pharmaceutical Industries Ltd. (ADR)	40,000	1,568,000
		34,867,000
Industrials 7.2%		
Aerospace & Defense 2.7%		
Exelis, Inc.	100,000	1,379,000
Northrop Grumman Corp.	25,000	2,070,000
Raytheon Co.	82,500	5,454,900
United Technologies Corp.	20,000	1,858,800
		10,762,700
Commercial Services & Supplies 0.6%		
ABM Industries, Inc.	15,000	367,650
Republic Services, Inc.	65,000	2,206,100
		2,573,750
Industrial Conglomerates 3.1%		
Danaher Corp.	25,000	1,582,500
General Electric Co.	470,000	10,899,300
		12,481,800
Machinery 0.3%		
AGCO Corp.	27,000	**1,355,130**
Road & Rail 0.5%		
Norfolk Southern Corp. (a)	25,000	**1,816,250**
Information Technology 10.1%		
Communications Equipment 1.7%		
Brocade Communications Systems, Inc.*	125,000	720,000
Cisco Systems, Inc.	250,000	6,077,500
		6,797,500
Computers & Peripherals 2.1%		
Apple, Inc.	3,000	1,188,240
EMC Corp.	75,000	1,771,500
Hewlett-Packard Co.	75,000	1,860,000
SanDisk Corp.*	25,000	1,527,500
Western Digital Corp.	35,000	2,173,150
		8,520,390
Electronic Equipment, Instruments & Components 0.3%		
Corning, Inc.	100,000	**1,423,000**
Internet Software & Services 0.3%		
IAC/InterActiveCorp.	25,000	**1,189,000**
IT Services 1.3%		
Booz Allen Hamilton Holding Corp. (a)	65,000	1,129,700
International Business Machines Corp.	15,000	2,866,650
Total System Services, Inc.	50,000	1,224,000
		5,220,350
Office Electronics 0.3%		
Xerox Corp.	125,000	**1,133,750**
Semiconductors & Semiconductor Equipment 1.8%		
Broadcom Corp. "A"	35,000	1,181,600
Intel Corp. (a)	110,000	2,664,200
Marvell Technology Group Ltd.	125,000	1,463,750
NVIDIA Corp. (a)	80,000	1,122,400
Texas Instruments, Inc.	25,000	871,750
		7,303,700
Software 2.3%		
CA, Inc.	50,000	1,431,500
Microsoft Corp.	145,000	5,006,850
Oracle Corp.	90,000	2,764,800
		9,203,150
Materials 3.1%		
Chemicals 1.5%		
CF Industries Holdings, Inc.	7,500	1,286,250
LyondellBasell Industries NV "A"	30,000	1,987,800
Praxair, Inc.	12,000	1,381,920
The Mosaic Co.	28,000	1,506,680
		6,162,650
Containers & Packaging 0.5%		
Sonoco Products Co.	60,000	**2,074,200**
Metals & Mining 0.4%		
Constellium NV "A"*	90,000	**1,453,500**
Paper & Forest Products 0.7%		
International Paper Co.	35,000	1,550,850
Schweitzer-Mauduit International, Inc.	30,000	1,496,400
		3,047,250
Telecommunication Services 2.9%		
Diversified Telecommunication Services		
AT&T, Inc.	260,000	9,204,000
CenturyLink, Inc. (a)	75,000	2,651,250
		11,855,250
Utilities 6.0%		
Electric Utilities 3.9%		
American Electric Power Co., Inc.	50,000	2,239,000
Duke Energy Corp.	35,000	2,362,500
Exelon Corp.	45,000	1,389,600
FirstEnergy Corp.	55,000	2,053,700
NextEra Energy, Inc.	27,000	2,199,960
Pinnacle West Capital Corp.	30,000	1,664,100
PPL Corp.	50,000	1,513,000
Southern Co.	55,000	2,427,150
		15,849,010
Gas Utilities 0.5%		
UGI Corp.	50,000	**1,955,500**

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

	Shares	Value ($)
Independent Power Producers & Energy Traders 0.3%		
AES Corp.	90,000	**1,079,100**
Multi-Utilities 1.3%		
Dominion Resources, Inc.	37,500	2,130,750
Public Service Enterprise Group, Inc.	50,000	1,633,000
Wisconsin Energy Corp.	40,000	1,639,600
		5,403,350
Total Common Stocks (Cost $323,631,673)		**402,734,980**

	Shares	Value ($)
Securities Lending Collateral 8.7%		
Daily Assets Fund Institutional, 0.10% (b) (c) (Cost $35,355,055)	35,355,055	**35,355,055**
Cash Equivalents 0.7%		
Central Cash Management Fund, 0.07% (b) (Cost $2,570,663)	2,570,663	**2,570,663**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $361,557,391)†	108.7	**440,660,698**
Other Assets and Liabilities, Net	(8.7)	**(35,118,317)**
Net Assets	100.0	**405,542,381**

* Non-income producing security.

† The cost for federal income tax purposes was $363,571,412. At June 30, 2013, net unrealized appreciation for all securities based on tax cost was $77,089,286. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $82,694,268 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $5,604,982.

(a) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of securities loaned at June 30, 2013 amounted to $34,506,197, which is 8.5% 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

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, 2013 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)	$402,734,980	$ —	$ —	$402,734,980
Short-Term Investments (d)	37,925,718	—	—	37,925,718
Total	**$440,660,698**	**$ —**	**$ —**	**$440,660,698**

There have been no transfers between fair value measurement levels during the period ended June 30, 2013.

(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, 2013 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $323,631,673) — including $34,506,197 of securities loaned	$	402,734,980
Investment in Daily Assets Fund Institutional (cost $35,355,055)*		35,355,055
Investment in Central Cash Management Fund (cost $2,570,663)		2,570,663
Total investments in securities, at value (cost $361,557,391)		440,660,698
Cash		10,000
Foreign currency , at value (cost $29,619)		29,797
Receivable for investments sold		1,062,554
Receivable for Fund shares sold		546
Dividends receivable		515,483
Interest receivable		4,298
Foreign taxes recoverable		2,107
Other assets		2,074
Total assets		442,287,557
Liabilities		
Payable upon return of securities loaned		35,355,055
Payable for investments purchased		768,095
Payable for Fund shares redeemed		324,092
Accrued management fee		203,389
Accrued Trustees' fees		247
Other accrued expenses and payables		94,298
Total liabilities		36,745,176
Net assets, at value	**$**	**405,542,381**
Net Assets Consist of		
Undistributed net investment income		3,486,800
Net unrealized appreciation (depreciation) on:		
Investments		79,103,307
Foreign currency		178
Accumulated net realized gain (loss)		(114,214,555)
Paid-in capital		437,166,651
Net assets, at value	**$**	**405,542,381**
Class A		
Net Asset Value, offering and redemption price per share ($401,567,620 ÷ 28,752,548 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**13.97**
Class B		
Net Asset Value, offering and redemption price per share ($3,974,761 ÷ 283,857 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**14.00**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2013 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $19,466)	$	5,149,960
Income distributions — Central Cash Management Fund		1,042
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		13,497
Total income		5,164,499
Expenses:		
Management fee		1,283,802
Administration fee		200,449
Services to shareholders		2,842
Record keeping fees (Class B)		1,041
Distribution and service fee (Class B)		4,820
Custodian fee		8,343
Professional fees		34,298
Reports to shareholders		21,815
Trustees' fees and expenses		8,053
Other		7,285
Total expenses before expense reductions		1,572,748
Expense reductions		(63,098)
Total expenses after expense reductions		1,509,650
Net investment income	**$**	**3,654,849**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		26,852,945
Foreign currency		(89)
		26,852,856
Change in net unrealized appreciation (depreciation) on:		
Investments		23,538,146
Foreign currency		(1,842)
		23,536,304
Net gain (loss)		**50,389,160**
Net increase (decrease) in net assets resulting from operations		**54,044,009**

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, 2013 (Unaudited)	Year Ended December 31, 2012
Operations:		
Net investment income	$ 3,654,849	$ 8,087,256
Net realized gain (loss)	26,852,856	9,766,336
Change in net unrealized appreciation (depreciation)	23,536,304	19,604,246
Net increase (decrease) in net assets resulting from operations	54,044,009	37,457,838
Distributions to shareholders from:		
Net investment income:		
Class A	(8,048,782)	(7,645,527)
Class B	(66,664)	(54,663)
Total distributions	(8,115,446)	(7,700,190)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,005,689	10,324,918
Reinvestment of distributions	8,048,782	7,645,527
Payments for shares redeemed	(31,927,774)	(66,665,475)
Net increase (decrease) in net assets from Class A share transactions	(20,873,303)	(48,695,030)
Class B		
Proceeds from shares sold	198,574	728,624
Reinvestment of distributions	66,664	54,663
Payments for shares redeemed	(307,946)	(918,486)
Net increase (decrease) in net assets from Class B share transactions	(42,708)	(135,199)
Increase (decrease) in net assets	25,012,552	(19,072,581)
Net assets at beginning of period	380,529,829	399,602,410
Net assets at end of period (including undistributed net investment income of $3,486,800 and $7,947,397, respectively)	**$ 405,542,381**	**$ 380,529,829**

Other Information		
Class A		
Shares outstanding at beginning of period	30,284,545	34,282,579
Shares sold	220,502	851,162
Shares issued to shareholders in reinvestment of distributions	590,519	631,340
Shares redeemed	(2,343,018)	(5,480,536)
Net increase (decrease) in Class A shares	(1,531,997)	(3,998,034)
Shares outstanding at end of period	**28,752,548**	**30,284,545**
Class B		
Shares outstanding at beginning of period	286,965	298,416
Shares sold	14,349	59,337
Shares issued to shareholders in reinvestment of distributions	4,877	4,499
Shares redeemed	(22,334)	(75,287)
Net increase (decrease) in Class B shares	(3,108)	(11,451)
Shares outstanding at end of period	**283,857**	**286,965**

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

Financial Highlights

Class A	Six Months Ended 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$12.45**	**$11.56**	**$11.80**	**$10.86**	**$ 8.92**	**$19.21**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.12	.25	.25	.23	.21	.21
Net realized and unrealized gain (loss)	1.68	.87	(.24)	.93	1.97	(5.68)
Total from investment operations	1.80	1.12	.01	1.16	2.18	(5.47)
Less distributions from:						
Net investment income	(.28)	(.23)	(.25)	(.22)	(.24)	(.34)
Net realized gains	—	—	—	—	—	(4.48)
Total distributions	(.28)	(.23)	(.25)	(.22)	(.24)	(4.82)
Net asset value, end of period	**$13.97**	**$12.45**	**$11.56**	**$11.80**	**$10.86**	**$ 8.92**
Total Return (%)	14.50[b]**	9.79[b]	(.07)	10.77	25.37	(36.40)[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	402	377	396	206	214	118
Ratio of expenses before expense reductions (%)	.78*	.78	.79	.82	.76	.87
Ratio of expenses after expense reductions (%)	.75*	.77	.79	.82	.76	.86
Ratio of net investment income (loss) (%)	1.83*	2.04	2.15	2.13	2.22	1.59
Portfolio turnover rate (%)	41**	63	28	32	76	97

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 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$12.46**	**$11.57**	**$11.81**	**$10.86**	**$ 8.92**	**$19.20**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.10	.21	.22	.20	.19	.12
Net realized and unrealized gain (loss)	1.68	.88	(.25)	.93	1.96	(5.64)
Total from investment operations	1.78	1.09	(.03)	1.13	2.15	(5.52)
Less distributions from:						
Net investment income	(.24)	(.20)	(.21)	(.18)	(.21)	(.28)
Net realized gains	—	—	—	—	—	(4.48)
Total distributions	(.24)	(.20)	(.21)	(.18)	(.21)	(4.76)
Net asset value, end of period	**$14.00**	**$12.46**	**$11.57**	**$11.81**	**$10.86**	**$ 8.92**
Total Return (%)	14.29[b]**	9.44[b]	(.36)	10.53	24.86	(36.64)[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	4	4	3	1	1	.29
Ratio of expenses before expense reductions (%)	1.09*	1.09	1.10	1.11	1.06	1.28
Ratio of expenses after expense reductions (%)	1.05*	1.08	1.10	1.11	1.06	1.26
Ratio of net investment income (loss) (%)	1.53*	1.73	1.84	1.84	1.92	1.20
Portfolio turnover rate (%)	41**	63	28	32	76	97

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 Large 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 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 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. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of June 30, 2013, the Fund had securities on loan with a gross value of $34,506,197. The value of the related collateral, $35,355,055, exceeded the value of the securities loaned at period end.

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 incurred post-enactment 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, 2012, the Fund had a net tax basis capital loss carryforward of approximately $137,753,000 of pre-enactment losses, including approximately $116,135,000 inherited from its merger with an affiliated fund in previous years, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2015 ($8,454,000), December 31, 2016 ($120,989,000) and December 31, 2017 ($8,310,000), the respective expiration dates, whichever occurs first, and which may be subject to certain limitations under Section 382–384 of Internal Revenue Code.

In addition, from November 1, 2012 through December 31, 2012, the Fund elects to defer qualified late year losses of approximately $1,300,000 of net short-term realized capital losses and treat them as arising in the fiscal year ending December 31, 2013.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2012 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 from 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 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 based upon the relative net assets or other appropriate measures.

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, 2013, purchases and sales of investment transactions (excluding short-term investments) aggregated $162,617,990 and $185,879,810, 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.

Under 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	.625%
Next $1.5 billion	.600%
Next $2.5 billion	.575%
Next $2.5 billion	.550%
Next $2.5 billion	.525%
Next $2.5 billion	.500%
Over $12.5 billion	.475%

For the period from January 1, 2013 through September 30, 2013, 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	.75%
Class B	1.05%

Accordingly, for the six months ended June 30, 2013, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $62,734, and the amount charged aggregated $1,221,068, which was equivalent to an annualized effective rate of 0.61% 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, 2013, the Administration Fee was $200,449, of which $33,616 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, 2013, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	Total Aggregated	Waived
Class A	$ 184	$ 184
Class B	94	94
	$ 278	**$ 278**

In addition, for the six months ended June 30, 2013, the Advisor reimbursed the Fund $86 of record keeping fees for Class B shares.

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, 2013, the Distribution Service Fee aggregated $4,820, of which $822 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, 2013, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $7,421, of which $7,253 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 Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and DWS Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and DWS Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that DWS Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in DWS Variable NAV Money Fund.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the six months ended June 30, 2013, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $1,500.

D. Ownership of the Fund

At June 30, 2013, two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 55% and 27%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 63% and 10%.

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, 2013.

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. 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, 2013 to June 30, 2013).

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, 2013

Actual Fund Return	Class A	Class B
Beginning Account Value 1/1/13	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,145.00	$1,142.90
Expenses Paid per $1,000*	$ 3.99	$ 5.58

Hypothetical 5% Fund Return	Class A	Class B
Beginning Account Value 1/1/13	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,021.08	$1,019.59
Expenses Paid per $1,000*	$ 3.76	$ 5.26

* 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 181 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Large Cap Value VIP	.75%	1.05%

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.

For an analysis of the fees associated with an investment in the Fund or similar funds, please refer to http://apps.finra.org/fundanalyzer/1/fa.aspx.

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 17, 2012

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 2012, 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, 2010 and 2011.

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 103 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 "fallout" 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 considered how aggregated DWS Fund performance measures relative to appropriate peers had varied by asset class and over time.

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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(800) 621-1148

VS2LCV-3 (R-028386-2 8/13)

JUNE 30, 2013

SEMIANNUAL REPORT

DWS VARIABLE SERIES II

DWS Money Market VIP

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 the Deutsche Asset & Wealth Management division of Deutsche Bank AG.

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

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.

	7-day current yield
June 30, 2013	0.01%*
December 31, 2012	0.01%*

* The investment advisor has agreed to waive fees/reimburse expenses. This wavier may be changed or terminated at any time without notice.

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)	**6/30/13**	**12/31/12**
Commercial Paper	37%	38%
Repurchase Agreements	21%	23%
Certificates of Deposit and Bank Notes	15%	12%
Government & Agency Obligations	12%	10%
Short-Term Notes	9%	13%
Time Deposit	4%	2%
Municipal Bonds and Notes	2%	2%
	100%	100%

Weighted Average Maturity*	**6/30/13**	**12/31/12**
DWS Variable Series II — DWS Money Market VIP	46 days	48 days
First Tier Retail Money Fund Average	44 days	43 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.

	Principal Amount ($)	Value ($)
Certificates of Deposit and Bank Notes 15.3%		
Banco del Estado de Chile, 0.27%, 11/14/2013	500,000	500,000
Bank of Nova Scotia, 0.27%, 12/11/2013	800,000	800,072
Caisse d'Amortissement de la Dette Sociale, 1.375%, 7/29/2013	500,000	500,436
China Construction Bank Corp., 0.39%, 8/28/2013	1,200,000	1,200,000
Credit Suisse:		
0.24%, 8/30/2013	1,000,000	1,000,000
0.25%, 8/8/2013	2,000,000	2,000,000
DNB Bank ASA:		
0.19%, 10/3/2013	2,000,000	2,000,000
0.225%, 7/3/2013	1,000,000	1,000,000
0.23%, 11/20/2013	2,000,000	2,000,000
DZ Bank AG:		
0.19%, 10/1/2013	2,000,000	2,000,000
0.21%, 8/2/2013	1,000,000	1,000,000
0.21%, 8/12/2013	1,000,000	1,000,000
Industrial & Commercial Bank of China:		
0.4%, 8/28/2013	1,500,000	1,500,000
0.4%, 9/6/2013	1,000,000	1,000,000
International Business Machines Corp., 1.25%, 5/12/2014	500,000	504,211
Kreditanstalt Fuer Wiederaufbau, 0.22%, 4/11/2014	1,000,000	999,711
Mitsubishi UFJ Trust & Banking Corp., 0.22%, 7/22/2013	1,000,000	1,000,000
Mizuho Corporate Bank Ltd.:		
0.23%, 9/9/2013	1,000,000	1,000,000
0.24%, 8/9/2013	1,000,000	1,000,000
Nordea Bank Finland PLC, 0.25%, 9/9/2013	1,000,000	1,000,000
Norinchukin Bank:		
0.14%, 7/11/2013	1,000,000	1,000,000
0.24%, 8/9/2013	1,000,000	1,000,000
Rabobank Nederland NV:		
0.27%, 9/9/2013	1,000,000	1,000,000
0.405%, 1/8/2014	1,000,000	1,000,713
Sumitomo Mitsui Banking Corp., 0.24%, 8/23/2013	1,000,000	1,000,000
Svenska Handelsbanken AB:		
0.225%, 7/12/2013	1,000,000	1,000,001
0.255%, 9/26/2013	1,000,000	1,000,012
0.28%, 7/23/2013	1,000,000	1,000,003
Total Certificates of Deposit and Bank Notes (Cost $31,005,159)		**31,005,159**
Commercial Paper 37.0%		
Issued at Discount 33.7%**		
ASB Finance Ltd., 0.25%, 12/17/2013	1,500,000	1,498,240
Bedford Row Funding Corp.:		
144A, 0.32%, 7/15/2013	400,000	399,950
144A, 0.39%, 10/21/2013	400,000	399,515
144A, 0.42%, 1/3/2014	400,000	399,132
Caisse Centrale Desjardins du Quebec:		
0.15%, 7/22/2013	2,000,000	1,999,825
0.205%, 8/19/2013	1,000,000	999,721
Caisse d'Amortissement de la Dette Sociale, 0.27%, 8/6/2013	1,000,000	999,730
Caisse des Depots et Consignations:		
144A, 0.22%, 9/5/2013	1,000,000	999,597
144A, 0.255%, 12/13/2013	1,200,000	1,198,597
144A, 0.26%, 9/27/2013	900,000	899,428
144A, 0.275%, 10/9/2013	500,000	499,618
Collateralized Commercial Paper Co., LLC, 0.24%, 8/6/2013	1,500,000	1,499,640
Collateralized Commercial Paper II Co., LLC:		
144A, 0.225%, 9/16/2013	800,000	799,615
144A, 0.225%, 9/17/2013	1,000,000	999,512
144A, 0.25%, 7/9/2013	1,000,000	999,944
DBS Bank Ltd.:		
144A, 0.25%, 9/12/2013	800,000	799,594
144A, 0.26%, 10/4/2013	500,000	499,657
Erste Abwicklungsanstalt:		
0.2%, 10/30/2013	1,000,000	999,328
0.24%, 8/1/2013	1,000,000	999,793
0.39%, 7/22/2013	1,000,000	999,772
0.425%, 7/8/2013	1,000,000	999,917
0.43%, 7/19/2013	1,000,000	999,785
0.43%, 8/13/2013	800,000	799,589
Exxon Mobil Corp., 0.09%, 7/29/2013	1,500,000	1,499,895
Kells Funding LLC:		
144A, 0.25%, 9/17/2013	1,000,000	999,458
144A, 0.25%, 9/20/2013	1,000,000	999,437
144A, 0.25%, 10/3/2013	500,000	499,674
144A, 0.26%, 8/15/2013	1,000,000	999,675
144A, 0.26%, 8/27/2013	500,000	499,794
LMA Americas LLC, 144A, 0.2%, 7/29/2013	2,000,000	1,999,689
Matchpoint Master Trust, 0.19%, 8/16/2013	1,500,000	1,499,636
Nederlandse Waterschapsbank NV, 0.2%, 10/7/2013	2,000,000	1,998,911
Nissan Motor Acceptance Corp., 0.3%, 7/26/2013	500,000	499,896
Nordea North America, Inc.:		
0.24%, 11/8/2013	800,000	799,307
0.26%, 8/26/2013	500,000	499,798
0.275%, 7/16/2013	1,000,000	999,885
Oversea-Chinese Banking Corp., Ltd., 0.17%, 8/1/2013	4,000,000	3,999,414
Regency Markets No. 1 LLC:		
144A, 0.16%, 7/11/2013	1,500,000	1,499,933
144A, 0.17%, 7/15/2013	2,000,000	1,999,868
144A, 0.17%, 7/16/2013	1,500,000	1,499,894
Scaldis Capital LLC, 0.199%, 8/12/2013	3,000,000	2,999,300
Sinopec Century Bright Capital Investment Ltd., 0.27%, 7/11/2013	700,000	699,948
Skandinaviska Enskilda Banken AB:		
0.15%, 7/9/2013	2,350,000	2,349,922
0.22%, 7/2/2013	1,000,000	999,994
0.235%, 10/3/2013	1,500,000	1,499,080
Standard Chartered Bank, 0.27%, 7/11/2013	2,000,000	1,999,850
Starbird Funding Corp., 144A, 0.08%, 7/1/2013	4,235,000	4,235,000

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

	Principal Amount ($)	Value ($)
Svenska Handelsbanken AB, 0.21%, 11/7/2013	1,000,000	999,248
UOB Funding LLC, 0.25%, 8/26/2013	500,000	499,806
Victory Receivables Corp.:		
144A, 0.17%, 7/18/2013	2,500,000	2,499,799
144A, 0.19%, 7/11/2013	2,500,000	2,499,868
144A, 0.2%, 7/16/2013	1,000,000	999,917
Working Capital Management Co., 144A, 0.2%, 8/16/2013	1,500,000	1,499,617
		68,265,012
Issued at Par 3.3%		
ASB Finance Ltd., 144A, 0.403%*, 9/4/2013	1,000,000	1,000,000
Atlantic Asset Securitization LLC:		
144A, 0.243%*, 9/4/2013	1,000,000	999,984
144A, 0.254%*, 10/4/2013	500,000	500,000
Australia & New Zealand Banking Group Ltd., 144A, 0.31%*, 12/6/2013	1,000,000	1,000,000
BNZ International Funding Ltd., 144A, 0.356%*, 10/23/2013	500,000	500,000
Kells Funding LLC, 144A, 0.252%*, 11/12/2013	1,000,000	1,000,000
Westpac Banking Corp.:		
144A, 0.283%*, 9/3/2013	1,000,000	1,000,000
144A, 0.31%*, 11/29/2013	750,000	750,000
		6,749,984
Total Commercial Paper (Cost $75,014,996)		**75,014,996**

Short-Term Notes* 9.3%

	Principal Amount ($)	Value ($)
Australia & New Zealand Banking Group Ltd., 144A, 0.338%, 5/12/2014	800,000	800,000
Bank of Nova Scotia:		
0.21%, 8/9/2013	1,000,000	1,000,000
0.26%, 1/10/2014	1,000,000	1,000,000
0.412%, 6/24/2019	1,000,000	1,000,000
Canadian Imperial Bank of Commerce, 0.29%, 5/16/2014	1,800,000	1,800,000
China Construction Bank Corp., 0.422%, 10/20/2014	2,000,000	2,000,000
Commonwealth Bank of Australia, 144A, 0.25%, 6/11/2014	1,000,000	1,000,000
JPMorgan Chase Bank NA, Series 2, 0.355%, 4/22/2019	1,000,000	1,000,000
Kommunalbanken AS, 144A, 0.16%, 2/26/2014	1,500,000	1,500,000
National Australia Bank Ltd., 0.272%, 8/13/2013	1,000,000	1,000,000
Rabobank Nederland NV:		
0.31%, 5/8/2014	500,000	500,000
0.345%, 1/27/2014	1,500,000	1,500,000
Royal Bank of Canada, 0.31%, 2/28/2014	1,000,000	1,000,000
Svensk Exportkredit AB, 144A, 0.18%, 6/17/2014	2,000,000	2,000,000
Westpac Banking Corp.:		
0.282%, 5/9/2014	750,000	750,000
0.31%, 11/15/2013	1,000,000	1,000,000
Total Short-Term Notes (Cost $18,850,000)		**18,850,000**

Time Deposit 3.9%

	Principal Amount ($)	Value ($)
State Street Bank & Trust Co., 0.01%, 7/1/2013 (Cost $8,000,000)	8,000,000	**8,000,000**

Government & Agency Obligations 12.1%

Other Government Related (a) 1.5%

	Principal Amount ($)	Value ($)
European Investment Bank, 3.0%, 4/8/2014	500,000	510,489
International Bank for Reconstruction & Development, 0.118%**, 8/23/2013	2,500,000	2,499,558
		3,010,047
U.S. Government Sponsored Agencies 8.0%		
Federal Farm Credit Bank, 0.22%*, 10/29/2014	500,000	500,102
Federal Home Loan Bank:		
0.125%, 3/27/2014	750,000	749,685
0.15%*, 11/8/2013	500,000	499,929
0.18%, 3/7/2014	500,000	499,983
0.5%, 8/28/2013	1,000,000	1,000,473
Federal Home Loan Mortgage Corp.:		
0.1%**, 12/17/2013	1,000,000	999,531
0.1%**, 12/20/2013	2,000,000	1,999,045
0.109%**, 11/19/2013	750,000	749,677
0.11%**, 1/22/2014	1,500,000	1,499,060
0.118%**, 8/26/2013	1,200,000	1,199,776
0.138%**, 8/13/2013	500,000	499,916
Federal National Mortgage Association:		
0.133%**, 7/19/2013	2,000,000	1,999,860
0.148%**, 9/3/2013	2,500,000	2,499,333
0.148%**, 9/16/2013	1,500,000	1,499,519
		16,195,889
U.S. Treasury Obligations 2.6%		
U.S. Treasury Bill, 0.177%**, 10/17/2013	1,975,000	1,973,948
U.S. Treasury Notes:		
0.5%, 10/15/2013	1,200,000	1,201,099
0.5%, 11/15/2013	500,000	500,650
2.25%, 5/31/2014	600,000	611,468
4.0%, 2/15/2014	1,000,000	1,023,924
		5,311,089
Total Government & Agency Obligations (Cost $24,517,025)		**24,517,025**

Municipal Bonds and Notes 1.5%

	Principal Amount ($)	Value ($)
Texas, JPMorgan Chase Putters/Drivers Trust, Various States, Series 4264, 144A, 0.07%***, 8/30/2013, LIQ: JPMorgan Chase Bank NA	2,000,000	2,000,000
Texas, State Transportation Revenue, 2.5%, 8/30/2013	1,000,000	1,003,738
Total Municipal Bonds and Notes (Cost $3,003,738)		**3,003,738**

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

	Principal Amount ($)	Value ($)
Repurchase Agreements 20.9%		
Barclays Capital, 0.1%, dated 6/28/2013, to be repurchased at $10,000,083 on 7/1/2013 (b)	10,000,000	10,000,000
JPMorgan Securities, Inc., 0.13%, dated 6/28/2013, to be repurchased at $9,000,098 on 7/1/2013 (c)	9,000,000	9,000,000
JPMorgan Securities, Inc., 0.4%, dated 3/18/2013, to be repurchased at $2,510,139 on 3/18/2014 (d)	2,500,000	2,500,000
Merrill Lynch & Co., Inc., 0.17%, dated 3/1/2013, to be repurchased at $2,001,757 on 9/3/2013 (e)	2,000,000	2,000,000
Merrill Lynch & Co., Inc., 0.08%, dated 6/28/2013, to be repurchased at $6,000,093 on 7/5/2013 (f)	6,000,000	6,000,000
Merrill Lynch & Co., Inc., 0.1%, dated 6/28/2013, to be repurchased at $10,488,401 on 7/1/2013 (g)	10,488,314	10,488,314
The Toronto-Dominion Bank, 0.06%, dated 6/26/2013, to be repurchased at $1,000,012 on 7/3/2013 (h)	1,000,000	1,000,000
The Toronto-Dominion Bank, 0.1%, dated 6/28/2013, to be repurchased at $1,500,013 on 7/1/2013 (i)	1,500,000	1,500,000
Total Repurchase Agreements (Cost $42,488,314)		**42,488,314**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $202,879,232)†	100.0	**202,879,232**
Other Assets and Liabilities, Net	0.0	**10,639**
Net Assets	100.0	**202,889,871**

* 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, 2013.

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

*** Variable rate demand notes are securities whose interest rates are reset periodically at market levels. These securities are payable on demand and are shown at their current rates as of June 30, 2013.

† The cost for federal income tax purposes was $202,879,232.

(a) Government-backed debt issued by financial companies or government sponsored enterprises.

(b) Collateralized by $10,294,600 U.S. Treasury Note, 0.25%, maturing on 4/15/2016 with a value of $10,200,049.

(c) Collateralized by $73,490,451 Federal National Mortgage Association — Interest Only, with the various coupon rates from 3.0–6.5%, with various maturity dates of 8/25/2026–4/25/2039 with a value of $9,180,416.

(d) Collateralized by $4,185,000 College Loan Corp. Trust, maturing on 3/1/2042 with a value of $2,603,006.

(e) Collateralized by $2,040,100 U.S. Treasury Bill, maturing on 7/5/2013 with a value of $2,040,092.

(f) Collateralized by $6,120,100 U.S. Treasury Bill, maturing on 7/5/2013 with a value of $6,120,076.

(g) Collateralized by $10,734,100 U.S. Treasury Note, 0.25%, maturing on 9/15/2015 with a value of $10,698,155.

(h) Collateralized by:

Principal Amount ($)	Security	Rate (%)	Maturity Date	Collateral Value ($)
62,000	Federal National Mortgage Association	1.25	1/30/2017	62,739
845,335	U.S. Treasury Note	4.625	11/15/2016	957,261
Total Collateral Value				**1,020,000**

(i) Collateralized by:

Principal Amount ($)	Security	Rate (%)	Maturity Date	Collateral Value ($)
6,583	Bank of Nova Scotia	2.15	8/3/2016	6,855
17,365	Cigna Corp.	5.375	2/15/2042	18,503
7,568	General Electric Capital Corp.	0.475	5/11/2016	7,512
2,901	JPMorgan Chase & Co.	1.625	5/15/2018	2,783
11,307	Pepsi Bottling Group, Inc.	7.0	3/1/2029	14,692
1,236,011	Roche Holdings, Inc.	6.0	3/1/2019	1,499,912
1,245	Verizon Communications, Inc.	6.25	4/1/2037	1,430
1,857	Wyeth LLC	5.5	2/1/2014	1,954
Total Collateral Value				**1,553,641**

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.

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.

LIQ: Liquidity Facility

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. 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, 2013 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 (j)	$ —	$160,390,918	$ —	$160,390,918
Repurchase Agreements	—	42,488,314	—	42,488,314
Total	**$ —**	**$202,879,232**	**$ —**	**$202,879,232**

There have been no transfers between fair value measurement levels during the period ended June 30, 2013.

(j) 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, 2013 (Unaudited)

Assets	
Investments in non-affiliated securities, valued at amortized cost	$ 160,390,918
Repurchase agreements, valued at amortized cost	42,488,314
Total investments, valued at amortized cost	202,879,232
Cash	51
Receivable for Fund shares sold	142,016
Interest receivable	77,615
Due from Advisor	4,901
Other assets	1,176
Total assets	203,104,991

Liabilities	
Payable for Fund shares redeemed	143,020
Distributions payable	720
Accrued Trustees' fees	1,713
Other accrued expenses and payables	69,667
Total liabilities	215,120
Net assets, at value	**$ 202,889,871**

Net Assets Consist of	
Undistributed net investment income	246
Accumulated net realized gain (loss)	202
Paid-in capital	202,889,423
Net assets, at value	**$ 202,889,871**
Class A **Net Asset Value,** offering and redemption price per share ($202,889,871 ÷ 202,973,139 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 1.00**

Statement of Operations

for the six months ended June 30, 2013 (Unaudited)

Investment Income	
Income: Interest	$ 38,571
Income distributions — Central Cash Management Fund	180,695
Total income	219,266
Expenses: Management fee	266,048
Administration fee	93,350
Services to shareholders	1,175
Custodian fee	12,095
Professional fees	25,218
Reports to shareholders	38,559
Trustees' fee and expenses	3,863
Other	4,580
Total expenses before expense reductions	444,888
Expense reductions	(235,002)
Total expenses after expense reductions	209,886
Net investment income	**9,380**
Net realized gain (loss)	**202**
Net increase (decrease) in net assets resulting from operations	**$ 9,582**

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, 2013 (Unaudited)	Year Ended December 31, 2012
Operations:		
Net investment income	$ 9,380	$ 20,513
Net realized gain (loss)	202	863
Net increase (decrease) in net assets resulting from operations	9,582	21,376
Distributions to shareholders from:		
Net investment income		
Class A	(9,338)	(20,513)
Total distributions	(9,338)	(20,513)
Fund share transactions:		
Class A		
Proceeds from shares sold	51,714,331	76,110,395
Reinvestment of distributions	9,415	20,711
Cost of shares redeemed	(44,977,923)	(96,940,382)
Net increase (decrease) in net assets from Class A share transactions	6,745,823	(20,809,276)
Increase (decrease) in net assets	6,746,067	(20,808,413)
Net assets at beginning of period	196,143,804	216,952,217
Net assets at end of period (including undistributed net investment income of $246 and $204, respectively)	**$ 202,889,871**	**$ 196,143,804**

Other Information		
Class A		
Shares outstanding at beginning of period	196,227,316	217,036,592
Shares sold	51,714,331	76,110,395
Shares issued to shareholders in reinvestment of distributions	9,415	20,711
Shares redeemed	(44,977,923)	(96,940,382)
Net increase (decrease) in Class A shares	6,745,823	(20,809,276)
Shares outstanding at end of period	**202,973,139**	**196,227,316**

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

Financial Highlights

Class A	Six Months Ended 6/30/13 (Unaudited)	2012	2011	2010	2009	2008
		Years Ended December 31,				
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***	.000***	.003	.026
Net realized gain (loss)	.000***	.000***	.000***	.000***	.000***	.000***
Total from investment operations	.000***	.000***	.000***	.000***	.003	.026
Less distributions from:						
Net investment income	(.000)***	(.000)***	(.000)***	(.000)***	(.003)	(.026)
Net asset value, end of period	**$1.000**	**$1.000**	**$1.000**	**$1.000**	**$1.000**	**$1.000**
Total Return (%)	.00[a,b]**	.01[a]	.01[a]	.01[a]	.34	2.64[a]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	203	196	217	220	270	398
Ratio of expenses before expense reductions (%)	.48*	.45	.51	.46	.43	.52
Ratio of expenses after expense reductions (%)	.22*	.31	.25	.34	.43	.50
Ratio of net investment income (%)	.01*	.01	.01	.01	.37	2.56

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

b Amount is less than .005%.

* 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, under the terms of a Master Repurchase Agreement, 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 bank or another designated sub-custodian 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.

As of June 30, 2013, the Fund had investments in repurchase agreements with a gross value of $42,488,314. The value of the related collateral exceeded the value of the repurchase agreements at period end. The detail of the related collateral is included in the footnotes following the Fund's Investment Portfolio.

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, 2012 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 based upon the relative net assets or other appropriate measures.

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, 2013 through September 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 0.51%.

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, 2013, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $234,710, and the amount charged aggregated $31,338, which was equivalent to an annualized effective rate of 0.03% 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, 2013, the Administration Fee was $93,350, of which $16,366 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, 2013, the amounts charged to the Fund by DISC aggregated $292, 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, 2013, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $5,732, of which $5,638 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 Vice Chairperson and to each committee Chairperson.

C. Ownership of the Fund

At June 30, 2013, four Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 37%, 21%, 11% and 10%.

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, 2013.

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, 2013 to June 30, 2013).

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, 2013

Actual Fund Return	Class A
Beginning Account Value 1/1/13	$1,000.00
Ending Account Value 6/30/13	$1,000.05
Expenses Paid per $1,000*	$ 1.09

Hypothetical 5% Fund Return	Class A
Beginning Account Value 1/1/13	$1,000.00
Ending Account Value 6/30/13	$1,023.70
Expenses Paid per $1,000*	$ 1.10

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratio	Class A
DWS Variable Series II — DWS Money Market VIP	.22%

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.

For an analysis of the fees associated with an investment in the Fund or similar funds, please refer to http://apps.finra.org/fundanalyzer/1/fa.aspx.

Other Information

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.

Money Market Fund Reform

In June 2013, the SEC proposed money market fund reform intended to address perceived systemic risks associated with money market funds and to improve transparency for money market fund investors. The Financial Stability Oversight Council (FSOC), a board of U.S. regulators established by the Dodd-Frank Act, had also previously proposed similar recommendations for money market fund reform. If one or more of the SEC or FSOC proposals for money market fund reform were to be adopted in the future, such regulatory action may affect the fund's operations and/or return potential.

Summary of Management Fee Evaluation by Independent Fee Consultant

September 17, 2012

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 2012, 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, 2010 and 2011.

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 103 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 "fallout" 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 considered how aggregated DWS Fund performance measures relative to appropriate peers had varied by asset class and over time.
- 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 Distributors, Inc.
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Chicago, IL 60606
(800) 621-1148

VS2MM-3 (R-028387-2 8/13)

JUNE 30, 2013

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. Smaller and medium company stocks tend to be more volatile than large company stocks. The Fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

DWS Investments is part of the Deutsche Asset & Wealth Management division of Deutsche Bank AG.

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

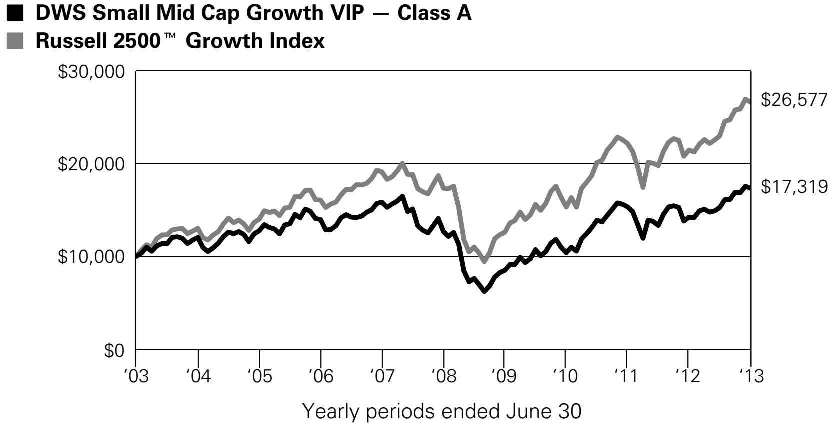
Performance Summary

June 30, 2013 (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, 2013 is 0.74% 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	$11,368	$12,190	$16,652	$13,688	$17,319
	Average annual total return	13.68%	21.90%	18.53%	6.48%	5.65%
Russell 2500 Growth Index	Growth of $10,000	$11,582	$12,403	$17,376	$15,343	$26,577
	Average annual total return	15.82%	24.03%	20.22%	8.94%	10.27%

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)	**6/30/13**	**12/31/12**
Common Stocks	96%	96%
Cash Equivalents	4%	4%
Exchange-Traded Fund	0%	0%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/13**	**12/31/12**
Information Technology	20%	16%
Consumer Discretionary	19%	17%
Health Care	16%	16%
Industrials	15%	20%
Financials	10%	8%
Energy	7%	9%
Consumer Staples	6%	6%
Materials	5%	7%
Telecommunication Services	2%	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

Joseph Axtell, CFA
Rafaelina M. Lee
Portfolio Managers

	Shares	Value ($)
Common Stocks 97.1%		
Consumer Discretionary 18.9%		
Auto Components 1.6%		
BorgWarner, Inc.*	15,012	1,293,284
Tenneco, Inc.*	25,873	1,171,529
		2,464,813
Diversified Consumer Services 0.9%		
Coinstar, Inc.*	23,337	**1,369,182**
Hotels, Restaurants & Leisure 3.2%		
Jack in the Box, Inc.*	31,768	1,248,164
Life Time Fitness, Inc.*	23,107	1,157,892
Panera Bread Co. "A"* (a)	13,704	2,548,122
		4,954,178
Household Durables 1.4%		
Jarden Corp.*	51,061	**2,233,919**
Leisure Equipment & Products 1.3%		
Polaris Industries, Inc. (a)	20,841	**1,979,895**
Media 0.9%		
Cinemark Holdings, Inc.	53,417	**1,491,403**
Specialty Retail 6.2%		
Advance Auto Parts, Inc.	12,251	994,414
Ascena Retail Group, Inc.* (a)	74,289	1,296,343
Children's Place Retail Stores, Inc.* (a)	24,575	1,346,710
DSW, Inc. "A" (a)	21,104	1,550,511
PetSmart, Inc.	23,945	1,604,075
Ulta Salon, Cosmetics & Fragrance, Inc.*	21,695	2,172,971
Urban Outfitters, Inc.*	19,478	783,405
		9,748,429
Textiles, Apparel & Luxury Goods 3.4%		
Carter's, Inc.	23,581	1,746,644
Deckers Outdoor Corp.* (a)	18,170	917,767
Hanesbrands, Inc. (a)	53,635	2,757,912
		5,422,323
Consumer Staples 5.7%		
Food & Staples Retailing 2.5%		
Susser Holdings Corp.* (a)	22,378	1,071,459
The Fresh Market, Inc.* (a)	27,690	1,376,747
United Natural Foods, Inc.*	28,141	1,519,332
		3,967,538
Food Products 1.9%		
Green Mountain Coffee Roasters, Inc.* (a)	20,131	1,511,033
Hain Celestial Group, Inc.* (a)	21,652	1,406,730
		2,917,763
Household Products 1.3%		
Church & Dwight Co., Inc.	32,931	**2,032,172**
Energy 6.9%		
Energy Equipment & Services 4.3%		
Core Laboratories NV (a)	8,260	1,252,711
Dresser-Rand Group, Inc.*	20,519	1,230,730
Dril-Quip, Inc.*	19,106	1,725,081
Helix Energy Solutions Group, Inc.* (a)	53,537	1,233,492
Hornbeck Offshore Services, Inc.*	25,262	1,351,517
		6,793,531
Oil, Gas & Consumable Fuels 2.6%		
Oasis Petroleum, Inc.* (a)	37,951	1,475,156
Rosetta Resources, Inc.*	40,369	1,716,490
Western Refining, Inc. (a)	27,919	783,686
		3,975,332
Financials 9.8%		
Capital Markets 3.1%		
Affiliated Managers Group, Inc.*	13,701	2,246,142
Financial Engines, Inc. (a)	27,685	1,262,159
Lazard Ltd. "A"	39,209	1,260,570
		4,768,871
Commercial Banks 1.1%		
Signature Bank*	21,457	**1,781,360**
Consumer Finance 2.5%		
DFC Global Corp.*	66,316	915,824
Encore Capital Group, Inc.* (a)	21,325	706,071
Portfolio Recovery Associates, Inc.*	15,086	2,317,662
		3,939,557
Insurance 1.0%		
W.R. Berkley Corp.	38,390	**1,568,615**
Real Estate Management & Development 1.0%		
CBRE Group, Inc. "A"*	69,709	**1,628,402**
Thrifts & Mortgage Finance 1.1%		
Ocwen Financial Corp.*	42,627	**1,757,085**
Health Care 15.6%		
Biotechnology 3.0%		
Alkermes PLC*	41,983	1,204,072
Cubist Pharmaceuticals, Inc.* (a)	11,462	553,615
Momenta Pharmaceuticals, Inc.*	89,708	1,351,002
Onyx Pharmaceuticals, Inc.*	11,050	959,361
Pharmacyclics, Inc.* (a)	7,344	583,628
		4,651,678
Health Care Equipment & Supplies 3.8%		
Analogic Corp.	24,018	1,749,231
ArthroCare Corp.*	45,404	1,567,800
HeartWare International, Inc.*	15,421	1,466,692
Thoratec Corp.*	40,313	1,262,200
		6,045,923
Health Care Providers & Services 4.8%		
Catamaran Corp.*	44,552	2,170,573
Centene Corp.*	30,543	1,602,286
ExamWorks Group, Inc.* (a)	83,953	1,782,322
Humana, Inc.	12,817	1,081,498
Team Health Holdings, Inc.*	22,207	912,042
		7,548,721
Health Care Technology 0.6%		
athenahealth, Inc.*	10,776	**912,943**
Pharmaceuticals 3.4%		
Endocyte, Inc.* (a)	63,325	831,457
Hi-Tech Pharmacal Co., Inc.	61,884	2,054,549
Pacira Pharmaceuticals, Inc.*	82,132	2,381,828
		5,267,834

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

	Shares	Value ($)
Industrials 14.2%		
Aerospace & Defense 1.3%		
BE Aerospace, Inc.*	31,790	**2,005,313**
Commercial Services & Supplies 1.6%		
Interface, Inc. (a)	85,441	1,449,934
Team, Inc.*	26,970	1,020,814
		2,470,748
Electrical Equipment 1.7%		
General Cable Corp.	26,743	822,347
Thermon Group Holdings, Inc.* (a)	90,116	1,838,367
		2,660,714
Machinery 6.1%		
Altra Holdings, Inc.	41,817	1,144,949
Chart Industries, Inc.* (a)	26,289	2,473,532
Joy Global, Inc. (a)	13,333	647,051
Manitowoc Co., Inc. (a)	101,534	1,818,474
Valmont Industries, Inc.	10,848	1,552,240
WABCO Holdings, Inc.*	27,333	2,041,502
		9,677,748
Road & Rail 1.7%		
Kansas City Southern	13,669	1,448,367
Swift Transportation Co.* (a)	71,409	1,181,105
		2,629,472
Trading Companies & Distributors 1.8%		
Applied Industrial Technologies, Inc.	22,306	1,078,049
United Rentals, Inc.* (a)	34,025	1,698,188
		2,776,237
Information Technology 19.6%		
Communications Equipment 1.4%		
Finisar Corp.* (a)	44,604	756,038
Harris Corp.	28,302	1,393,873
		2,149,911
Computers & Peripherals 1.5%		
Western Digital Corp.	36,849	**2,287,954**
Electronic Equipment, Instruments & Components 1.6%		
Cognex Corp.	25,109	1,135,429
IPG Photonics Corp. (a)	22,001	1,336,121
		2,471,550
Internet Software & Services 1.6%		
CoStar Group, Inc.*	14,057	1,814,337
IAC/InterActiveCorp.	16,460	782,838
		2,597,175
IT Services 3.1%		
Cardtronics, Inc.*	58,941	1,626,772
MAXIMUS, Inc.	22,557	1,680,045
VeriFone Systems, Inc.*	48,151	809,418
Virtusa Corp.*	35,720	791,555
		4,907,790
Semiconductors & Semiconductor Equipment 1.4%		
ON Semiconductor Corp.*	124,369	1,004,901
RF Micro Devices, Inc.*	219,656	1,175,160
		2,180,061
Software 9.0%		
Aspen Technology, Inc.*	40,853	1,176,158
Bottomline Technologies de, Inc.*	43,025	1,088,102
Cadence Design Systems, Inc.* (a)	112,322	1,626,423
Concur Technologies, Inc.* (a)	17,465	1,421,302
MICROS Systems, Inc.* (a)	37,721	1,627,661
NQ Mobile, Inc. (ADR)* (a)	83,404	673,904
PTC, Inc.*	61,647	1,512,201
QLIK Technologies, Inc.* (a)	39,524	1,117,343
Red Hat, Inc.*	17,245	824,656
Tyler Technologies, Inc.*	19,916	1,365,242
Ultimate Software Group, Inc.* (a)	14,651	1,718,416
		14,151,408
Materials 4.6%		
Chemicals 1.6%		
CF Industries Holdings, Inc.	5,001	857,671
Westlake Chemical Corp. (a)	16,277	1,569,266
		2,426,937
Construction Materials 0.9%		
Eagle Materials, Inc.	21,321	**1,412,943**
Containers & Packaging 1.0%		
Crown Holdings, Inc.*	39,212	**1,612,790**
Metals & Mining 0.6%		
Detour Gold Corp.*	10,930	85,740
Haynes International, Inc.	17,250	825,757
		911,497
Paper & Forest Products 0.5%		
Schweitzer-Mauduit International, Inc.	15,963	**796,234**
Telecommunication Services 1.8%		
Diversified Telecommunication Services 0.8%		
inContact, Inc.*	149,084	**1,225,471**
Wireless Telecommunication Services 1.0%		
SBA Communications Corp. "A"*	22,341	**1,655,915**
Total Common Stocks (Cost $115,462,857)		**152,229,335**

Exchange-Traded Fund 0.5%

	Shares	Value ($)
SPDR S&P Biotech (a) (Cost $728,338)	7,865	**820,005**

Securities Lending Collateral 27.9%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.10% (b) (c) (Cost $43,757,303)	43,757,303	**43,757,303**

Cash Equivalents 3.6%

	Shares	Value ($)
Central Cash Management Fund, 0.07% (b) (Cost $5,669,837)	5,669,837	**5,669,837**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $165,618,335)†	129.1	**202,476,480**
Other Assets and Liabilities, Net	(29.1)	**(45,588,258)**
Net Assets	100.0	**156,888,222**

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

* Non-income producing security.

† The cost for federal income tax purposes was $166,070,744. At June 30, 2013, net unrealized appreciation for all securities based on tax cost was $36,405,736. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $40,191,101 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,785,365.

(a) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of securities loaned at June 30, 2013 amounted to $42,616,651, which is 27.2% 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

S&P: Standard & Poor's

SPDR: Standard & Poor's 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, 2013 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)	$152,229,335	$ —	$ —	$152,229,335
Exchange-Traded Fund	820,005	—	—	820,005
Short-Term Investments (d)	49,427,140	—	—	49,427,140
Total	**$202,476,480**	**$ –**	**$ –**	**$202,476,480**

There have been no transfers between fair value measurement levels during the six months ended June 30, 2013.

(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, 2013 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $116,191,195) — including $42,616,651 of securities loaned	$	153,049,340
Investment in Daily Assets Fund Institutional (cost $43,757,303)*		43,757,303
Investment in Central Cash Management Fund (cost $5,669,837)		5,669,837
Total investments in securities, at value (cost $165,618,335)		202,476,480
Cash		10,000
Foreign currency, at value (cost $275)		269
Receivable for investments sold		1,523,251
Receivable for Fund shares sold		8,080
Dividends receivable		32,582
Interest receivable		12,223
Other assets		1,072
Total assets		204,063,957
Liabilities		
Payable upon return of securities loaned		43,757,303
Payable for investments purchased		3,177,740
Payable for Fund shares redeemed		95,910
Accrued management fee		71,460
Accrued Trustees' fees		1,637
Other accrued expenses and payables		71,685
Total liabilities		47,175,735
Net assets, at value	**$**	**156,888,222**
Net Assets Consist of		
Distributions in excess of net investment income		(247,905)
Net unrealized appreciation (depreciation) on:		
Investments		36,858,145
Foreign currency		(104)
Accumulated net realized gain (loss)		(23,273,717)
Paid-in capital		143,551,803
Net assets, at value	**$**	**156,888,222**
Class A		
Net Asset Value, offering and redemption price per share ($156,888,222 ÷ 9,124,867 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**17.19**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2013 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $956)	$	270,257
Income distributions — Central Cash Management Fund		2,519
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		99,596
Total income		372,372
Expenses:		
Management fee		422,788
Administration fee		76,870
Services to shareholders		1,595
Custodian fee		5,369
Audit and tax fees		29,634
Legal fees		81
Trustees' fees and expenses		3,679
Total expenses		540,016
Net investment income (loss)		**(167,644)**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		7,988,146
Change in net unrealized appreciation (depreciation) on:		
Investments		11,733,135
Foreign currency		(113)
		11,733,022
Net gain (loss)		**19,721,168**
Net increase (decrease) in net assets resulting from operations	**$**	**19,553,524**

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, 2013 (Unaudited)	Year Ended December 31, 2012
Operations:		
Net investment income (loss)	$ (167,644)	$ 160,586
Net realized gain (loss)	7,988,146	3,935,183
Change in net unrealized appreciation (depreciation)	11,733,022	16,236,973
Net increase (decrease) in net assets resulting from operations	19,553,524	20,332,742
Distributions to shareholders from:		
Net investment income:		
Class A	(194,886)	—
Total distributions	(194,886)	—
Fund share transactions:		
Class A		
Proceeds from shares sold	2,230,667	4,543,991
Reinvestment of distributions	194,886	—
Cost of shares redeemed	(10,355,054)	(26,306,762)
Net increase (decrease) in net assets from Class A share transactions	(7,929,501)	(21,762,771)
Increase (decrease) in net assets	11,429,137	(1,430,029)
Net assets at beginning of period	145,459,085	146,889,114
Net assets at end of period (including distributions in excess of net investment income and undistributed net investment income of $247,905 and $114,625, respectively)	**$ 156,888,222**	**$ 145,459,085**

Other Information		
Class A		
Shares outstanding at beginning of period	9,604,576	11,094,343
Shares sold	136,395	306,987
Shares issued to shareholders in reinvestment of distributions	11,761	—
Shares redeemed	(627,865)	(1,796,754)
Net increase (decrease) in Class A shares	(479,709)	(1,489,767)
Shares outstanding at end of period	**9,124,867**	**9,604,576**

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

Financial Highlights

Class A	Six Months Ended 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$15.14**	**$13.24**	**$13.85**	**$10.70**	**$ 7.61**	**$15.07**
Income (loss) from investment operations:						
Net investment income (loss)[a]	(.02)	.02	(.03)	(.01)	(.02)	(.01)
Net realized and unrealized gain (loss)	2.09	1.88	(.50)	3.16	3.11	(7.45)
Total from investment operations	2.07	1.90	(.53)	3.15	3.09	(7.46)
Less distributions from:						
Net investment income	(.02)	—	(.08)	—	—	—
Net asset value, end of period	**$17.19**	**$15.14**	**$13.24**	**$13.85**	**$10.70**	**$ 7.61**
Total Return (%)	13.68**	14.35	(3.91)	29.44	40.60	(49.50)[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	157	145	147	88	80	69
Ratio of expenses before expense reductions (%)	.72*	.74	.73	.78	.77	.88
Ratio of expenses after expense reductions (%)	.72*	.74	.73	.78	.77	.85
Ratio of net investment income (loss) (%)	(.24)*	.11	(.23)	(.12)	(.22)	(.04)
Portfolio turnover rate (%)	29**	57	84	64	93	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

Notes to Financial Statements (Unaudited)

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 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.

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. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of June 30, 2013, the Fund had securities on loan with a gross value of $42,616,651. The value of the related collateral, $43,757,303, exceeded the value of the securities loaned at period end.

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 incurred post-enactment 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, 2012, the Fund had a net tax basis capital loss carryforward of approximately $30,593,000, including $29,395,000 of pre-enactment losses, including approximately $5,435,000 inherited from its mergers with affiliated funds in previous years, 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 Internal Revenue Code; and approximately $1,198,000 of post-enactment short-term losses, which may be applied against realized net taxable capital gains indefinitely.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2012 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 from net investment income of the Fund, if any, are 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 based upon the relative net assets or other appropriate measures.

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, 2013, purchases and sales of investment transactions (excluding short-term investments) aggregated $43,602,723 and $50,366,198, 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, 2013, 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, 2013, the Administration Fee was $76,870, of which $12,993 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, 2013, the amounts charged to the Fund by DISC aggregated $174, of which $57 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, 2013, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $6,726, of which $6,470 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 Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and DWS Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and DWS Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that DWS Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in DWS Variable NAV Money Fund.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the six months ended June 30, 2013, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $11,066.

D. Ownership of the Fund

At June 30, 2013, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 55%, 22% 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, 2013.

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, 2013 to June 30, 2013).

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, 2013

Actual Fund Return	**Class A**
Beginning Account Value 1/1/13	$1,000.00
Ending Account Value 6/30/13	$1,136.80
Expenses Paid per $1,000*	$ 3.81
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/13	$1,000.00
Ending Account Value 6/30/13	$1,021.22
Expenses Paid per $1,000*	$ 3.61

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratio	**Class A**
DWS Variable Series II — DWS Small Mid Cap Growth VIP	.72%

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.

For an analysis of the fees associated with an investment in the Fund or similar funds, please refer to http://apps.finra.org/fundanalyzer/1/fa.aspx.

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 17, 2012

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 2012, 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, 2010 and 2011.

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 103 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 "fallout" 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 considered how aggregated DWS Fund performance measures relative to appropriate peers had varied by asset class and over time.

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 Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2SMCG-3 (R-028388-2 8/13)

JUNE 30, 2013

SEMIANNUAL REPORT

DWS VARIABLE SERIES II

DWS Small Mid Cap Value VIP

(formerly 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. Smaller and medium company stocks tend to be more volatile than large company stocks. The fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

DWS Investments is part of the Deutsche Asset & Wealth Management division of Deutsche Bank AG.

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

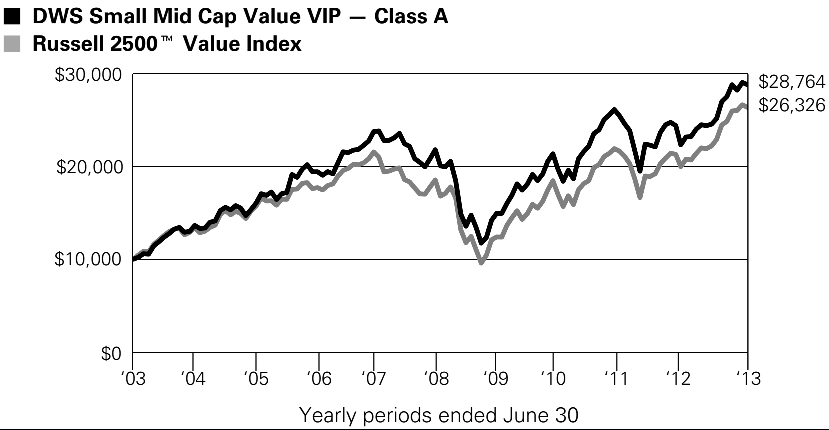
Performance Summary

June 30, 2013 (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, 2013 are 0.82% and 1.16% 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 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 Small Mid Cap Value VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,449	$12,432	$15,658	$14,365	$28,764
	Average annual total return	14.49%	24.32%	16.12%	7.51%	11.14%
Russell 2500 Value Index	Growth of $10,000	$11,510	$12,688	$16,816	$15,686	$26,326
	Average annual total return	15.10%	26.88%	18.92%	9.42%	10.16%

DWS Small Mid Cap Value VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$11,426	$12,385	$15,502	$14,125	$27,762
	Average annual total return	14.26%	23.85%	15.73%	7.15%	10.75%
Russell 2500 Value Index	Growth of $10,000	$11,510	$12,688	$16,816	$15,686	$26,326
	Average annual total return	15.10%	26.88%	18.92%	9.42%	10.16%

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)	**6/30/13**	**12/31/12**
Common Stocks	100%	98%
Cash Equivalents	—	2%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/13**	**12/31/12**
Financials	29%	27%
Industrials	19%	22%
Information Technology	17%	17%
Consumer Discretionary	10%	8%
Energy	6%	5%
Health Care	6%	7%
Materials	6%	7%
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

Effective on or about September 3, 2013, Dreman Value Management, L.L.C. will no longer serve as subadvisor to the Fund and day-to-day portfolio management of the Fund will transition to Deutsche Investment Management Americas Inc.

Effective on or about September 3, 2013, the new portfolio manager for the Fund will be as follows:

Richard Glass, CFA
Portfolio Manager, Deutsche Investment Management Americas Inc.

	Shares	Value ($)
Common Stocks 98.8%		
Consumer Discretionary 10.0%		
Auto Components 1.7%		
Cooper Tire & Rubber Co.	121,100	**4,016,887**
Hotels, Restaurants & Leisure 1.5%		
Brinker International, Inc. (a)	88,730	**3,498,624**
Media 2.7%		
Meredith Corp. (a)	81,675	3,895,898
Valassis Communications, Inc. (a)	103,300	2,540,147
		6,436,045
Specialty Retail 1.2%		
Rent-A-Center, Inc. (a)	79,275	**2,976,776**
Textiles, Apparel & Luxury Goods 2.9%		
Hanesbrands, Inc.	67,525	3,472,135
The Jones Group, Inc. (a)	243,565	3,349,019
		6,821,154
Consumer Staples 2.7%		
Food Products 1.4%		
Tyson Foods, Inc. "A" (a)	125,450	**3,221,556**
Household Products 1.3%		
Energizer Holdings, Inc.	31,575	**3,173,603**
Energy 6.0%		
Energy Equipment & Services 4.9%		
Atwood Oceanics, Inc.* (a)	54,765	2,850,518
Nabors Industries Ltd.	188,100	2,879,811
Oil States International, Inc.*	38,675	3,582,852
Superior Energy Services, Inc.*	89,775	2,328,764
		11,641,945
Oil, Gas & Consumable Fuels 1.1%		
Rosetta Resources, Inc.* (a)	60,450	**2,570,334**
Financials 28.3%		
Capital Markets 1.6%		
Raymond James Financial, Inc. (a)	86,950	**3,737,111**
Commercial Banks 12.6%		
Associated Banc-Corp. (a)	211,550	3,289,603
Bank of Hawaii Corp. (a)	60,550	3,046,876
BOK Financial Corp.	48,930	3,133,967
East West Bancorp., Inc.	127,125	3,495,937
FirstMerit Corp. (a)	192,200	3,849,766
Fulton Financial Corp. (a)	276,925	3,179,099
Old National Bancorp.	216,082	2,988,414
Webster Financial Corp.	130,000	3,338,400
Zions Bancorp. (a)	121,800	3,517,584
		29,839,646
Insurance 8.4%		
Allied World Assurance Co. Holdings AG	33,250	3,042,708
Argo Group International Holdings Ltd.	81,904	3,471,923
Axis Capital Holdings Ltd.	66,250	3,032,925
Everest Re Group Ltd.	24,775	3,177,641
Hartford Financial Services Group, Inc. (a)	121,025	3,742,093
Unum Group (a)	121,000	3,553,770
		20,021,060
Real Estate Investment Trusts 5.7%		
CBL & Associates Properties, Inc. (REIT) (a)	128,225	2,746,579
EPR Properties (REIT) (a)	68,700	3,453,549
Hospitality Properties Trust (REIT) (a)	140,925	3,703,509
Weingarten Realty Investors (REIT) (a)	119,075	3,663,938
		13,567,575
Health Care 6.9%		
Biotechnology 1.4%		
United Therapeutics Corp.* (a)	51,675	**3,401,248**
Health Care Equipment & Supplies 1.3%		
Teleflex, Inc. (a)	38,925	**3,016,298**
Health Care Providers & Services 2.8%		
LifePoint Hospitals, Inc.* (a)	67,675	3,305,247
Owens & Minor, Inc. (a)	98,725	3,339,867
		6,645,114
Life Sciences Tools & Services 1.4%		
Charles River Laboratories International, Inc.*	81,750	**3,354,203**
Industrials 17.8%		
Aerospace & Defense 1.5%		
Alliant Techsystems, Inc. (a)	43,425	**3,575,180**
Commercial Services & Supplies 1.1%		
The Brink's Co.	97,450	**2,485,950**
Construction & Engineering 3.1%		
Tutor Perini Corp.* (a)	205,100	3,710,259
URS Corp.	78,550	3,709,131
		7,419,390
Electrical Equipment 1.2%		
General Cable Corp. (a)	94,962	**2,920,081**
Machinery 8.6%		
Crane Co.	55,925	3,351,026
Harsco Corp.	132,100	3,063,399
Joy Global, Inc. (a)	47,050	2,283,336
Oshkosh Corp.*	86,175	3,272,065
SPX Corp.	40,400	2,907,992
Titan International, Inc. (a)	132,725	2,239,071
Trinity Industries, Inc. (a)	84,125	3,233,765
		20,350,654
Road & Rail 1.2%		
AMERCO (a)	17,800	**2,881,820**
Trading Companies & Distributors 1.1%		
Textainer Group Holdings Ltd. (a)	69,575	**2,674,463**
Information Technology 16.5%		
Communications Equipment 1.0%		
ARRIS Group, Inc.* (a)	169,475	**2,431,966**
Computers & Peripherals 1.5%		
NCR Corp.*	109,175	**3,601,683**
Electronic Equipment, Instruments & Components 2.5%		
Arrow Electronics, Inc.*	72,640	2,894,704
Jabil Circuit, Inc. (a)	144,050	2,935,739
		5,830,443

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

	Shares	Value ($)
IT Services 3.8%		
Amdocs Ltd. (a)	84,050	3,117,414
DST Systems, Inc. (a)	44,675	2,918,618
ManTech International Corp. "A" (a)	116,450	3,041,674
		9,077,706
Semiconductors & Semiconductor Equipment 5.1%		
KLA-Tencor Corp.	54,900	3,059,577
Microsemi Corp.*	131,700	2,996,175
PMC-Sierra, Inc.*	434,725	2,760,504
Teradyne, Inc.* (a)	184,150	3,235,516
		12,051,772
Software 2.6%		
BMC Software, Inc.*	66,675	3,009,710
Synopsys, Inc.*	86,350	3,087,012
		6,096,722
Materials 6.6%		
Chemicals 1.0%		
Huntsman Corp.	145,293	**2,406,052**
Containers & Packaging 2.6%		
Owens-Illinois, Inc.*	104,575	2,906,139
Rock-Tenn Co. "A"	33,275	3,323,507
		6,229,646
Metals & Mining 1.9%		
Coeur Mining, Inc.*	111,750	1,486,275
Reliance Steel & Aluminum Co. (a)	43,725	2,866,611
		4,352,886
Paper & Forest Products 1.1%		
Domtar Corp.	39,225	**2,608,463**
Utilities 4.0%		
Electric Utilities 1.5%		
Portland General Electric Co. (a)	117,975	**3,608,855**
Gas Utilities 1.2%		
AGL Resources, Inc. (a)	66,400	**2,845,904**
Multi-Utilities 1.3%		
Ameren Corp.	84,750	**2,918,790**
Total Common Stocks (Cost $172,761,142)		**234,307,605**

Securities Lending Collateral 40.4%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.10% (b) (c) (Cost $95,749,252)	95,749,252	**95,749,252**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $268,510,394)†	139.1	**330,056,857**
Other Assets and Liabilities, Net (a)	(39.1)	**(92,870,584)**
Net Assets	100.0	**237,186,273**

* Non-income producing security.

† The cost for federal income tax purposes was $268,057,985. At June 30, 2013, net unrealized appreciation for all securities based on tax cost was $61,998,872. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $68,419,788 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $6,420,916.

(a) All or a portion of these securities were on loan. In addition, included in other assets and liabilities, net are pending sales, that are also on loan (see Notes to Financial Statements). The value of securities loaned at June 30, 2013 amounted to $93,258,469, which is 39.3% 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, 2013 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)	$234,307,605	$ —	$ —	$234,307,605
Short-Term Investments	95,749,252	—	—	95,749,252
Total	**$330,056,857**	**$ —**	**$ —**	**$330,056,857**

There have been no transfers between fair value measurement levels during the period ended June 30, 2013.

(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, 2013 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $172,761,142) — including $93,258,469 of securities loaned	$	234,307,605
Investment in Daily Assets Fund Institutional (cost $95,749,252)*		95,749,252
Total investments in securities, at value (cost $268,510,394)		330,056,857
Cash		3,834
Receivable for investments sold		4,460,680
Receivable for Fund shares sold		249,054
Dividends receivable		265,820
Interest receivable		5,313
Foreign taxes recoverable		3,390
Other assets		1,459
Total assets		335,046,407
Liabilities		
Payable upon return of securities loaned		95,749,252
Line of credit loan payable		1,300,000
Payable for Fund shares redeemed		588,204
Accrued management fee		128,512
Acrued Trustees' fees		344
Other accrued expenses and payables		93,822
Total liabilities		97,860,134
Net assets, at value	**$**	**237,186,273**
Net Assets Consist of:		
Undistributed net investment income		1,122,767
Net unrealized appreciation (depreciation) on investments		61,546,463
Accumulated net realized gain (loss)		(64,619,925)
Paid-in capital		239,136,968
Net assets, at value	**$**	**237,186,273**
Class A		
Net Asset Value, offering and redemption price per share ($219,653,653 ÷ 15,185,620 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**14.46**
Class B		
Net Asset Value, offering and redemption price per share ($17,532,620 ÷ 1,210,887 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**14.48**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2013 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $2,543)	$	2,118,833
Income distributions — Central Cash Management Fund		2,220
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		54,210
Total income		2,175,263
Expenses:		
Management fee		792,855
Administration fee		121,989
Services to shareholders		3,934
Record keeping fees (Class B)		9,284
Distribution service fee (Class B)		22,317
Custodian fee		4,644
Professional fees		31,341
Reports to shareholders		29,202
Trustees' fees and expenses		4,524
Other		5,806
Total expenses		1,025,896
Net investment income (loss)		**1,149,367**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		7,154,712
Change in net unrealized appreciation (depreciation) on investments		24,853,202
Net gain (loss)		**32,007,914**
Net increase (decrease) in net assets resulting from operations	**$**	**33,157,281**

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, 2013 (Unaudited)	Year Ended December 31, 2012
Operations:		
Net investment income (loss)	$ 1,149,367	$ 2,773,636
Net realized gain (loss)	7,154,712	13,712,216
Change in net unrealized appreciation (depreciation)	24,853,202	14,140,156
Net increase (decrease) in net assets resulting from operations	33,157,281	30,626,008
Distributions to shareholders from:		
Net investment income:		
Class A	(2,660,096)	(2,544,018)
Class B	(150,280)	(170,068)
Total distributions	(2,810,376)	(2,714,086)
Fund share transactions:		
Class A		
Proceeds from shares sold	9,677,108	15,242,621
Reinvestment of distributions	2,660,096	2,544,018
Payments for shares redeemed	(39,620,859)	(40,361,547)
Net increase (decrease) in net assets from Class A share transactions	(27,283,655)	(22,574,908)
Class B		
Proceeds from shares sold	1,982,177	2,417,600
Reinvestment of distributions	150,280	170,068
Payments for shares redeemed	(3,691,219)	(8,165,016)
Net increase (decrease) in net assets from Class B share transactions	(1,558,762)	(5,577,348)
Increase (decrease) in net assets	1,504,488	(240,334)
Net assets at beginning of period	235,681,785	235,922,119
Net assets at end of period (including undistributed net investment income of $1,122,767 and $2,783,776, respectively)	**$ 237,186,273**	**$ 235,681,785**

Other Information		
Class A		
Shares outstanding at beginning of period	17,113,875	18,969,648
Shares sold	686,539	1,248,625
Shares issued to shareholders in reinvestment of distributions	190,143	207,168
Shares redeemed	(2,804,937)	(3,311,566)
Net increase (decrease) in Class A shares	(1,928,255)	(1,855,773)
Shares outstanding at end of period	**15,185,620**	**17,113,875**
Class B		
Shares outstanding at beginning of period	1,321,925	1,796,701
Shares sold	139,409	195,502
Shares issued to shareholders in reinvestment of distributions	10,719	13,827
Shares redeemed	(261,166)	(684,105)
Net increase (decrease) in Class B shares	(111,038)	(474,776)
Shares outstanding at end of period	**1,210,887**	**1,321,925**

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

Financial Highlights

Class A	Six Months Ended 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$12.78**	**$11.36**	**$12.21**	**$10.04**	**$ 7.93**	**$20.12**
Income (loss) from investment operations:						
Net investment income[a]	.07	.14	.13	.12	.16	.13
Net realized and unrealized gain (loss)	1.78	1.42	(.85)	2.19	2.11	(4.92)
Total from investment operations	1.85	1.56	(.72)	2.31	2.27	(4.79)
Less distributions from:						
Net investment income	(.17)	(.14)	(.13)	(.14)	(.16)	(.29)
Net realized gains	—	—	—	—	—	(7.11)
Total distributions	(.17)	(.14)	(.13)	(.14)	(.16)	(7.40)
Net asset value, end of period	**$14.46**	**$12.78**	**$11.36**	**$12.21**	**$10.04**	**$ 7.93**
Total Return (%)	14.49**	13.77	(6.08)	23.07	29.70	(33.42)[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	220	219	216	247	235	223
Ratio of expenses before expense reductions (%)	.81*	.82	.81	.82	.79	.83
Ratio of expenses after expense reductions (%)	.81*	.82	.81	.82	.79	.82
Ratio of net investment income (%)	.97*	1.18	1.08	1.14	1.92	1.13
Portfolio turnover rate (%)	14**	11	36	38	72	49

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 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$12.78**	**$11.36**	**$12.20**	**$10.03**	**$ 7.92**	**$20.08**
Income (loss) from investment operations:						
Net investment income[a]	.04	.10	.09	.08	.13	.09
Net realized and unrealized gain (loss)	1.78	1.42	(.85)	2.19	2.12	(4.92)
Total from investment operations	1.82	1.52	(.76)	2.27	2.25	(4.83)
Less distributions from:						
Net investment income	(.12)	(.10)	(.08)	(.10)	(.14)	(.22)
Net realized gains	—	—	—	—	—	(7.11)
Total distributions	(.12)	(.10)	(.08)	(.10)	(.14)	(7.33)
Net asset value, end of period	**$14.48**	**$12.78**	**$11.36**	**$12.20**	**$10.03**	**$ 7.92**
Total Return (%)	14.26**	13.38	(6.33)	22.66	29.28	(33.67)[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	18	17	20	26	23	24
Ratio of expenses before expense reductions (%)	1.17*	1.16	1.15	1.17	1.14	1.18
Ratio of expenses after expense reductions (%)	1.17*	1.16	1.15	1.17	1.14	1.17
Ratio of net investment income (%)	.62*	.81	.74	.79	1.57	.78
Portfolio turnover rate (%)	14**	11	36	38	72	49

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 Small Mid Cap Value VIP (formerly 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. Brown Brothers Harriman & Co., as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of June 30, 2013, the Fund had securities on loan with a gross value of $93,258,469. The value of the related collateral, $95,749,252, exceeded the value of the securities loaned at period end.

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 incurred post-enactment 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, 2012, the Fund had a net tax basis capital loss carryforward of approximately $71,435,000 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, 2012 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 from 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 based upon the relative net assets or other appropriate measures.

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 received 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, 2013, purchases and sales of investment transactions (excluding short-term investments) aggregated $32,845,558 and $61,881,619, 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, 2013, 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.

For the period from January 1, 2013 through September 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	.84%
Class B	1.20%

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, 2013, the Administration Fee was $121,989, of which $19,771 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, 2013, the amounts charged to the Fund by DISC were as follows:

Service to Shareholders	Total Aggregated	Unpaid at June 30, 2013
Class A	$ 277	$ 89
Class B	247	72
	$ 524	**$ 161**

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, 2013, the Distribution Service Fee aggregated $22,317, of which $3,688 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, 2013, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $7,754, all of which 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 Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and DWS Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and DWS Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that DWS Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in DWS Variable NAV Money Fund.

D. Ownership of the Fund

At June 30, 2013, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 55%, 22% and 15%. Three participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 46%, 13% and 10%.

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.

At June 30, 2013, the Fund had a $1,300,000 outstanding loan. Interest expense incurred on the borrowing was $918 for the six months ended June 30, 2013. The average dollar amount of the borrowings was $878,846, the weighted average interest rate on these borrowings was 1.45% and the Fund had a loan outstanding for twenty-six days throughout the period.

F. Subsequent Event

Effective on or about September 3, 2013, Dreman Value Management, L.L.C. will no longer serve as the subadvisor to the Fund and day-to-day portfolio management of the Fund will transition to Deutsche Investment Management Americas Inc. Materials regarding this change is set forth in a supplement to the Fund's prospectus dated August 2, 2013.

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, 2013 to June 30, 2013).

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, 2013

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/13	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,144.90	$1,142.60
Expenses Paid per $1,000*	$ 4.31	$ 6.22
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/13	$1,000.00	$1,000.00
Ending Account Value 6/30/13	$1,020.78	$1,018.99
Expenses Paid per $1,000*	$ 4.06	$ 5.86

* 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 181 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Small Mid Cap Value VIP	.81%	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.

For an analysis of the fees associated with an investment in the Fund or similar funds, please refer to http://apps.finra.org/fundanalyzer/1/fa.aspx.

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 17, 2012

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 2012, 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, 2010 and 2011.

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 103 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 "fallout" 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 considered how aggregated DWS Fund performance measures relative to appropriate peers had varied by asset class and over time.
- 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 Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2SMCV-3 (R-028381-2 8/13)

JUNE 30, 2013

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 higherquality 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. The Fund may lend securities to approved institutions. See the prospectus for details.

DWS Investments is part of the Deutsche Asset & Wealth Management division of Deutsche Bank AG.

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

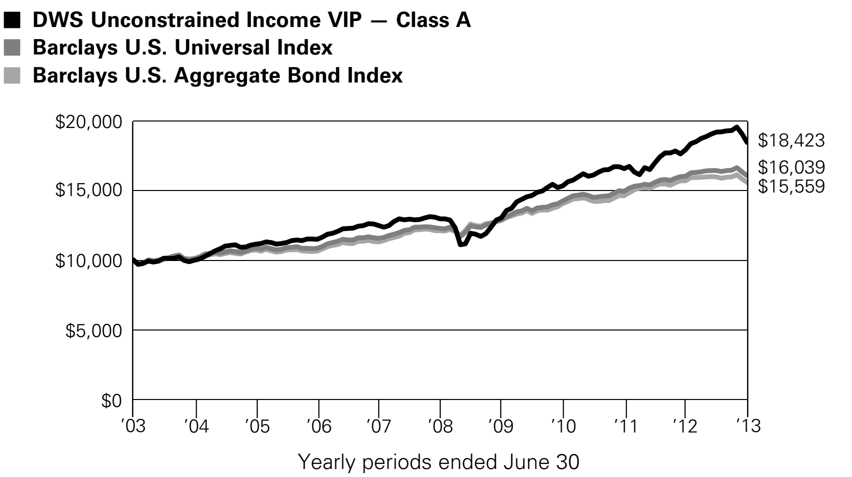
Performance Summary

June 30, 2013 (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, 2013 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. Universal Index represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index and the non-ERISA portion of the CMBS Index. On May 1, 2013, the Barclays U.S. Universal Index replaced the Barclays U.S. Aggregate Bond Index as the fund's primary benchmark index because the Advisor believes that it more accurately reflects the fund's investment strategy.

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 Unconstrained Income VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$9,612	$10,290	$12,040	$14,237	$18,423
	Average annual total return	–3.88%	2.90%	6.38%	7.32%	6.30%
Barclays U.S. Universal Index	Growth of $10,000	$9,770	$10,024	$11,276	$13,086	$16,039
	Average annual total return	–2.30%	0.24%	4.09%	5.53%	4.84%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$9,756	$9,931	$11,090	$12,878	$15,559
	Average annual total return	–2.44%	–0.69%	3.51%	5.19%	4.52%

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)	**6/30/13**	**12/31/12**
Corporate Bonds	52%	56%
Government & Agency Obligations	16%	15%
Cash Equivalents	8%	6%
Mortgage-Backed Securities Pass-Throughs	7%	6%
Loan Participations and Assignments	7%	8%
Commercial Mortgage-Backed Securities	3%	3%
Collateralized Mortgage Obligations	3%	4%
Municipal Bonds and Notes	1%	1%
Exchange-Traded Fund	1%	0%
Asset-Backed	1%	1%
Options Purchased	1%	0%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	**6/30/13**	**12/31/12**
AAA	23%	21%
AA	4%	2%
A	4%	7%
BBB	20%	23%
BB	18%	18%
B	21%	24%
CCC	3%	2%
Not Rated	7%	3%
	100%	100%

Interest Rate Sensitivity	**6/30/13**	**12/31/12**
Effective Maturity	6.5 years	7.4 years
Effective Duration	5.2 years	5.2 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

Gary Russell, CFA
William Chepolis, CFA
John D. Ryan
Philip G. Condon
Darwei Kung
Portfolio Managers, Deutsche Investment Management Americas Inc.

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 55.9%		
Consumer Discretionary 6.6%		
AMC Networks, Inc., 7.75%, 7/15/2021	15,000	16,388
AmeriGas Finance LLC:		
6.75%, 5/20/2020	20,000	20,700
7.0%, 5/20/2022	20,000	20,450
Asbury Automotive Group, Inc.:		
8.375%, 11/15/2020	80,000	88,600
144A, 8.375%, 11/15/2020	5,000	5,538
Ashtead Capital, Inc., 144A, 6.5%, 7/15/2022	45,000	46,912
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	50,000	50,500
Avis Budget Car Rental LLC:		
144A, 5.5%, 4/1/2023	30,000	28,950
8.25%, 1/15/2019	95,000	103,312
BC Mountain LLC, 144A, 7.0%, 2/1/2021	30,000	30,600
Block Communications, Inc., 144A, 7.25%, 2/1/2020	65,000	68,250
Boyd Gaming Corp., 9.0%, 7/1/2020 (b)	25,000	25,344
Bresnan Broadband Holdings LLC, 144A, 8.0%, 12/15/2018	95,000	103,550
British Sky Broadcasting Group PLC, 144A, 3.125%, 11/26/2022	90,000	84,160
Cablevision Systems Corp., 8.0%, 4/15/2020	10,000	10,900
Caesar's Entertainment Operating Co., Inc., 8.5%, 2/15/2020	120,000	113,100
CCO Holdings LLC:		
6.5%, 4/30/2021	120,000	125,100
6.625%, 1/31/2022	70,000	72,975
7.0%, 1/15/2019	20,000	21,200
7.25%, 10/30/2017	90,000	95,512
7.375%, 6/1/2020	10,000	10,875
8.125%, 4/30/2020	25,000	27,313
CDR DB Sub, Inc., 144A, 7.75%, 10/15/2020	35,000	35,088
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	35,000	32,900
144A, 6.375%, 9/15/2020	160,000	162,800
Chester Downs & Marina LLC, 144A, 9.25%, 2/1/2020	25,000	24,125
Clear Channel Communications, Inc., 144A, 11.25%, 3/1/2021	40,000	41,700
Clear Channel Worldwide Holdings, Inc.:		
Series A, 144A, 6.5%, 11/15/2022	15,000	15,375
Series A, 7.625%, 3/15/2020	20,000	20,600
Series B, 7.625%, 3/15/2020	185,000	191,475
Cogeco Cable, Inc., 144A, 4.875%, 5/1/2020	5,000	4,863
Columbus International, Inc., 144A, 11.5%, 11/20/2014	100,000	107,750
Cox Communications, Inc., 144A, 3.25%, 12/15/2022	60,000	56,450
Crown Media Holdings, Inc., 10.5%, 7/15/2019	55,000	61,050
Cumulus Media Holdings, Inc., 7.75%, 5/1/2019	65,000	63,537
Delphi Corp., 5.0%, 2/15/2023	40,000	41,100
DISH DBS Corp.:		
6.625%, 10/1/2014	65,000	67,762
6.75%, 6/1/2021	10,000	10,625
7.125%, 2/1/2016	155,000	167,787
Fontainebleau Las Vegas Holdings LLC, 144A, 11.0%, 6/15/2015*	65,000	0
Griffey Intermediate, Inc., 144A, 7.0%, 10/15/2020	65,000	62,725
Harron Communications LP, 144A, 9.125%, 4/1/2020	60,000	64,800
Hertz Corp.:		
144A, 4.25%, 4/1/2018	25,000	24,375
6.75%, 4/15/2019	50,000	52,875
7.5%, 10/15/2018	155,000	166,237
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	20,000	20,250
Jo-Ann Stores Holdings, Inc., 144A, 9.75%, 10/15/2019 (PIK)	70,000	71,925
L Brands, Inc., 7.0%, 5/1/2020	20,000	22,200
Lear Corp., 8.125%, 3/15/2020	32,000	35,040
Libbey Glass, Inc., 6.875%, 5/15/2020	18,000	18,833
Lions Gate Entertainment, Inc., 144A, 10.25%, 11/1/2016	95,000	101,769
LKQ Corp., 144A, 4.75%, 5/15/2023	40,000	38,200
Mattel, Inc., 5.45%, 11/1/2041	141,400	145,564
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	20,000	19,950
Mediacom Broadband LLC, 6.375%, 4/1/2023	65,000	64,675
Mediacom LLC:		
7.25%, 2/15/2022	20,000	21,050
9.125%, 8/15/2019	30,000	32,250
MGM Resorts International:		
6.75%, 10/1/2020 (b)	25,000	25,875
7.625%, 1/15/2017	100,000	109,250
8.625%, 2/1/2019	140,000	158,200
National CineMedia LLC:		
6.0%, 4/15/2022	35,000	35,919
7.875%, 7/15/2021	45,000	48,825
Palace Entertainment Holdings LLC, 144A, 8.875%, 4/15/2017	75,000	77,250
Petco Holdings, Inc., 144A, 8.5%, 10/15/2017 (PIK)	20,000	20,400
Quebecor Media, Inc., 5.75%, 1/15/2023	30,000	29,250
Regal Entertainment Group, 9.125%, 8/15/2018	21,000	23,100
Rent-A-Center, Inc., 144A, 4.75%, 5/1/2021	20,000	18,950

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

		Principal Amount ($)(a)	Value ($)
Sabre Holdings Corp., 8.35%, 3/15/2016		55,000	58,850
SACI Falabella, 144A, 3.75%, 4/30/2023		200,000	183,000
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021		15,000	14,550
Seminole Indian Tribe of Florida:			
144A, 7.75%, 10/1/2017		40,000	42,500
144A, 7.804%, 10/1/2020		70,000	73,850
Serta Simmons Holdings LLC, 144A, 8.125%, 10/1/2020		35,000	35,612
Sirius XM Radio, Inc., 144A, 8.75%, 4/1/2015		155,000	170,500
SIWF Merger Sub, Inc., 144A, 6.25%, 6/1/2021		35,000	34,300
Starz LLC, 5.0%, 9/15/2019		25,000	24,813
Taylor Morrison Communities, Inc., 144A, 5.25%, 4/15/2021		40,000	38,000
Travelport LLC, 144A, 13.875%, 3/1/2016 (PIK)		6,750	6,902
UCI International, Inc., 8.625%, 2/15/2019		20,000	20,400
Univision Communications, Inc.:			
144A, 6.875%, 5/15/2019		10,000	10,500
144A, 7.875%, 11/1/2020		25,000	27,063
UPC Holding BV, 144A, 8.375%, 8/15/2020	EUR	50,000	69,280
Viking Cruises Ltd., 144A, 8.5%, 10/15/2022		30,000	32,850
Visteon Corp., 6.75%, 4/15/2019		28,000	29,470
Yonkers Racing Corp., 144A, 11.375%, 7/15/2016		60,000	63,375
			4,720,768

Consumer Staples 3.5%

	Principal Amount ($)(a)	Value ($)
Agrokor DD, 144A, 8.875%, 2/1/2020	250,000	263,500
Ajecorp BV, 144A, 6.5%, 5/14/2022	150,000	152,700
Alicorp SA, 144A, 3.875%, 3/20/2023	250,000	231,250
Alliance One International, Inc., 10.0%, 7/15/2016	25,000	25,563
Altria Group, Inc., 9.95%, 11/10/2038	145,000	214,602
B&G Foods, Inc., 4.625%, 6/1/2021	35,000	33,425
Chiquita Brands International, Inc., 144A, 7.875%, 2/1/2021	25,000	26,188
ConAgra Foods, Inc., 3.25%, 9/15/2022	45,000	42,929
Constellation Brands, Inc.:		
3.75%, 5/1/2021	35,000	32,769
6.0%, 5/1/2022	15,000	16,088
Controladora Mabe SA de CV, 144A, 7.875%, 10/28/2019	100,000	107,000
Del Monte Corp., 7.625%, 2/15/2019	80,000	82,200
Delhaize Group SA, 4.125%, 4/10/2019	140,000	144,214
FAGE Dairy Industry SA, 144A, 9.875%, 2/1/2020	85,000	91,587
JBS U.S.A. LLC, 144A, 8.25%, 2/1/2020	25,000	26,188
MHP SA, 144A, 8.25%, 4/2/2020	200,000	178,165
Mriya Agro Holding PLC, 144A, 9.45%, 4/19/2018	200,000	178,000
NBTY, Inc., 9.0%, 10/1/2018	25,000	27,187
Pilgrim's Pride Corp., 7.875%, 12/15/2018	45,000	47,925
Reynolds Group Issuer, Inc.:		
5.75%, 10/15/2020	65,000	65,487
6.875%, 2/15/2021	100,000	105,000
7.125%, 4/15/2019	100,000	105,625
Smithfield Foods, Inc.:		
6.625%, 8/15/2022	60,000	64,500
7.75%, 7/1/2017	140,000	154,350
Sun Products Corp., 144A, 7.75%, 3/15/2021	50,000	49,625
		2,466,067

Energy 7.5%

	Principal Amount ($)(a)	Value ($)
Access Midstream Partners LP, 6.125%, 7/15/2022	55,000	55,688
Afren PLC, 144A, 10.25%, 4/8/2019	200,000	223,500
Antero Resources Finance Corp.:		
7.25%, 8/1/2019	50,000	52,125
9.375%, 12/1/2017	30,000	31,800
Arch Coal, Inc., 7.0%, 6/15/2019 (b)	20,000	16,650
Berry Petroleum Co.:		
6.375%, 9/15/2022	30,000	29,888
6.75%, 11/1/2020	120,000	124,200
BreitBurn Energy Partners LP:		
7.875%, 4/15/2022	30,000	30,600
8.625%, 10/15/2020	35,000	37,100
Chaparral Energy, Inc., 7.625%, 11/15/2022	20,000	20,400
Chesapeake Energy Corp., 5.75%, 3/15/2023	15,000	15,188
Chesapeake Oilfield Operating LLC, 144A, 6.625%, 11/15/2019	25,000	24,750
CITGO Petroleum Corp., 144A, 11.5%, 7/1/2017	105,000	116,550
Continental Resources, Inc.:		
144A, 4.5%, 4/15/2023	10,000	9,725
5.0%, 9/15/2022	30,000	30,525
7.125%, 4/1/2021	30,000	33,000
Crestwood Midstream Partners LP, 7.75%, 4/1/2019	65,000	66,950
Crosstex Energy LP:		
7.125%, 6/1/2022	15,000	15,150
8.875%, 2/15/2018	55,000	58,300
DCP Midstream Operating LP, 3.875%, 3/15/2023	100,000	93,788
Denbury Resources, Inc., 4.625%, 7/15/2023	75,000	69,187
Dresser-Rand Group, Inc., 6.5%, 5/1/2021	75,000	79,500
Eagle Rock Energy Partners LP, 8.375%, 6/1/2019	75,000	76,312
EDC Finance Ltd., 144A, 4.875%, 4/17/2020	200,000	183,000
El Paso LLC, 7.25%, 6/1/2018	55,000	60,925

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

		Principal Amount ($)(a)	Value ($)
Enterprise Products Operating LLC, 3.35%, 3/15/2023		65,000	62,550
EP Energy LLC:			
6.875%, 5/1/2019		60,000	64,200
7.75%, 9/1/2022		25,000	26,750
9.375%, 5/1/2020		25,000	28,250
EPE Holdings LLC, 144A, 8.125%, 12/15/2017 (PIK) (b)		57,358	58,505
EV Energy Partners LP, 8.0%, 4/15/2019		140,000	141,400
FMC Technologies, Inc., 3.45%, 10/1/2022		40,000	38,317
Frontier Oil Corp., 6.875%, 11/15/2018		55,000	58,987
Global Geophysical Services, Inc., 10.5%, 5/1/2017		90,000	78,300
Halcon Resources Corp.:			
8.875%, 5/15/2021		85,000	82,450
9.75%, 7/15/2020		50,000	49,875
Holly Energy Partners LP:			
6.5%, 3/1/2020		20,000	20,150
8.25%, 3/15/2018		55,000	58,163
KazMunayGas National Co. JSC, 144A, 5.75%, 4/30/2043		200,000	177,000
Kinder Morgan Energy Partners LP, 5.8%, 3/1/2021		194,000	219,869
Kodiak Oil & Gas Corp., 144A, 5.5%, 1/15/2021		40,000	39,000
Linn Energy LLC:			
144A, 6.25%, 11/1/2019		110,000	104,775
6.5%, 5/15/2019		15,000	14,663
MEG Energy Corp.:			
144A, 6.375%, 1/30/2023		100,000	97,000
144A, 6.5%, 3/15/2021		40,000	39,650
Memorial Production Partners LP, 144A, 7.625%, 5/1/2021		60,000	59,100
Midstates Petroleum Co., Inc.:			
144A, 9.25%, 6/1/2021		70,000	65,800
144A, 10.75%, 10/1/2020		35,000	35,175
Murray Energy Corp., 144A, 8.625%, 6/15/2021		5,000	5,000
Northern Oil & Gas, Inc., 8.0%, 6/1/2020		90,000	90,900
Oasis Petroleum, Inc.:			
6.5%, 11/1/2021		25,000	25,625
6.875%, 1/15/2023		25,000	25,750
7.25%, 2/1/2019		40,000	41,700
Odebrecht Drilling Norbe VIII/IX Ltd., 144A, 6.35%, 6/30/2021		190,000	191,900
Offshore Group Investment Ltd., 144A, 7.125%, 4/1/2023		60,000	58,950
Pacific Drilling SA, 144A, 5.375%, 6/1/2020		35,000	32,725
Pacific Rubiales Energy Corp., 144A, 5.125%, 3/28/2023		200,000	189,000
Petroleos de Venezuela SA, 144A, 8.5%, 11/2/2017		300,000	274,875
Plains Exploration & Production Co., 6.75%, 2/1/2022		30,000	31,793
Range Resources Corp., 5.0%, 3/15/2023		15,000	14,663
Regency Energy Partners LP, 144A, 4.5%, 11/1/2023		15,000	13,575
Reliance Holdings U.S.A., Inc., 144A, 5.4%, 2/14/2022		250,000	253,972
Sabine Pass Liquefaction LLC, 144A, 5.625%, 2/1/2021		105,000	101,850
SandRidge Energy, Inc., 7.5%, 3/15/2021		75,000	71,625
SESI LLC:			
6.375%, 5/1/2019		40,000	41,300
7.125%, 12/15/2021		115,000	124,200
Swift Energy Co., 7.875%, 3/1/2022		55,000	54,725
Talos Production LLC, 144A, 9.75%, 2/15/2018		60,000	57,000
Tesoro Corp.:			
4.25%, 10/1/2017		35,000	35,875
5.375%, 10/1/2022		25,000	25,313
Transocean, Inc., 3.8%, 10/15/2022		75,000	71,441
Transportadora de Gas Internacional SA ESP, 144A, 5.7%, 3/20/2022		200,000	206,500
Venoco, Inc., 8.875%, 2/15/2019		105,000	102,375
WPX Energy, Inc., 5.25%, 1/15/2017		40,000	41,000
			5,358,362

Financials 11.6%

		Principal Amount ($)(a)	Value ($)
Ally Financial, Inc.:			
5.5%, 2/15/2017		60,000	62,689
6.25%, 12/1/2017		95,000	101,628
8.0%, 3/15/2020 (b)		115,000	133,544
8.3%, 2/12/2015		135,000	145,462
American International Group, Inc., 3.8%, 3/22/2017		60,000	62,899
American Tower Corp., (REIT), 3.5%, 1/31/2023		60,000	54,940
Banco de Credito del Peru, 144A, 4.25%, 4/1/2023		200,000	184,500
Banco Santander Brasil SA:			
144A, 4.625%, 2/13/2017		250,000	253,750
144A, 8.0%, 3/18/2016	BRL	400,000	164,923
Bank of America Corp., 3.3%, 1/11/2023		160,000	151,224
Bank of Ireland Mortgage Bank, Series 6, 4.0%, 7/5/2013	EUR	750,000	976,335
Barclays Bank PLC, 7.625%, 11/21/2022		400,000	392,500
BBVA Bancomer SA, 144A, 6.75%, 9/30/2022		200,000	216,000
BNP Paribas SA, 3.25%, 3/3/2023		115,000	105,714
Case New Holland, Inc., 7.75%, 9/1/2013		45,000	45,281
CIT Group, Inc.:			
5.0%, 5/15/2017		80,000	81,700
5.25%, 3/15/2018		90,000	92,475
CNH Capital LLC, 144A, 3.625%, 4/15/2018		60,000	57,150

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

		Principal Amount ($)(a)	Value ($)
Development Bank of Kazakhstan JSC, Series 3, 6.5%, 6/3/2020		500,000	525,000
E*TRADE Financial Corp., 6.75%, 6/1/2016		130,000	133,575
Ford Motor Credit Co., LLC, 3.984%, 6/15/2016		145,000	151,906
General Electric Capital Corp., 5.3%, 2/11/2021		75,000	82,273
General Motors Financial Co., Inc., 144A, 3.25%, 5/15/2018 (b)		15,000	14,587
Glencore Funding LLC, 144A, 4.125%, 5/30/2023		200,000	178,377
Hartford Financial Services Group, Inc.:			
4.3%, 4/15/2043		85,000	73,622
6.0%, 1/15/2019		117,000	131,894
HCP, Inc., (REIT), 5.375%, 2/1/2021		143,000	155,118
Hellas Telecommunications Finance SCA, 144A, 8.21%**, 7/15/2015 (PIK)*	EUR	109,187	0
Host Hotels & Resorts LP, Series D, (REIT), 3.75%, 10/15/2023		75,000	68,786
ING Bank NV, 144A, 2.0%, 9/25/2015		200,000	201,696
International Lease Finance Corp.:			
3.875%, 4/15/2018		65,000	61,100
4.625%, 4/15/2021		50,000	46,000
5.75%, 5/15/2016		20,000	20,553
6.25%, 5/15/2019		50,000	51,375
8.625%, 9/15/2015		40,000	43,800
8.625%, 1/15/2022		45,000	51,750
8.75%, 3/15/2017		120,000	133,650
Intesa Sanpaolo SpA, 3.875%, 1/16/2018		240,000	230,451
Jefferies Group LLC, 5.125%, 1/20/2023		60,000	59,537
Loews Corp., 2.625%, 5/15/2023		65,000	59,123
Macquarie Bank Ltd., 144A, 3.45%, 7/27/2015		105,000	108,814
Morgan Stanley:			
3.75%, 2/25/2023		85,000	81,284
4.1%, 5/22/2023		85,000	78,533
MPT Operating Partnership LP:			
(REIT), 6.375%, 2/15/2022		30,000	31,500
(REIT), 6.875%, 5/1/2021		50,000	53,000
Neuberger Berman Group LLC:			
144A, 5.625%, 3/15/2020		25,000	25,875
144A, 5.875%, 3/15/2022		45,000	45,900
OPB Finance Trust, Series C, 2.9%, 5/24/2023	CAD	238,000	215,234
Principal Financial Group, Inc., 3.3%, 9/15/2022		150,000	145,714
RCI Banque SA, 144A, 3.5%, 4/3/2018		200,000	199,017
Royal Bank of Scotland Group PLC, 6.1%, 6/10/2023		100,000	94,871
Santander US Debt SAU, 144A, 3.724%, 1/20/2015		45,000	45,421

	Principal Amount ($)(a)	Value ($)
Skandinaviska Enskilda Banken AB, 144A, 1.375%, 5/29/2018	396,000	381,467
SLM Corp., 5.5%, 1/25/2023	125,000	119,025
The Goldman Sachs Group, Inc.:		
3.625%, 1/22/2023	55,000	52,623
5.75%, 1/24/2022	160,000	176,482
Turkiye Is Bankasi, 144A, 6.0%, 10/24/2022	250,000	244,375
Turkiye Vakiflar Bankasi Tao, 144A, 3.75%, 4/15/2018	250,000	235,000
Ventas Realty LP, (REIT), 2.7%, 4/1/2020	130,000	122,920
		8,213,942
Health Care 2.9%		
Agilent Technologies, Inc., 3.2%, 10/1/2022	40,000	37,081
Aviv Healthcare Properties LP, 7.75%, 2/15/2019	85,000	90,738
Biomet, Inc.:		
6.5%, 8/1/2020	55,000	56,684
6.5%, 10/1/2020 (b)	15,000	14,963
Community Health Systems, Inc.:		
5.125%, 8/15/2018	185,000	187,775
7.125%, 7/15/2020	60,000	61,800
Fresenius Medical Care U.S. Finance II, Inc.:		
144A, 5.625%, 7/31/2019	35,000	36,400
144A, 5.875%, 1/31/2022	30,000	31,575
Fresenius Medical Care U.S. Finance, Inc., 144A, 6.5%, 9/15/2018	20,000	21,750
HCA, Inc.:		
5.875%, 3/15/2022	40,000	41,050
6.5%, 2/15/2020	210,000	227,194
7.5%, 2/15/2022	155,000	171,662
7.875%, 2/15/2020	365,000	393,059
8.5%, 4/15/2019	45,000	48,291
Hologic, Inc., 6.25%, 8/1/2020	30,000	31,106
Laboratory Corp. of America Holdings, 3.75%, 8/23/2022	35,000	33,433
Mallinckrodt International Finance SA, 144A, 4.75%, 4/15/2023	75,000	71,445
Physio-Control International, Inc., 144A, 9.875%, 1/15/2019	50,000	55,000
Sky Growth Acquisition Corp., 144A, 7.375%, 10/15/2020	30,000	30,750
STHI Holding Corp., 144A, 8.0%, 3/15/2018	60,000	64,800
Tenet Healthcare Corp.:		
144A, 4.375%, 10/1/2021	55,000	50,463
144A, 4.5%, 4/1/2021	10,000	9,325
6.25%, 11/1/2018	80,000	84,200
VPII Escrow Corp., 144A, 6.75%, 8/15/2018 (c)	70,000	71,750
Warner Chilcott Co., LLC, 7.75%, 9/15/2018	75,000	81,000
Zoetis, Inc., 144A, 3.25%, 2/1/2023	30,000	28,504
		2,031,798

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	Principal Amount ($)(a)	Value ($)
Industrials 5.6%		
Accuride Corp., 9.5%, 8/1/2018	65,000	66,138
Aeropuertos Dominicanos Siglo XXI SA, 144A, 9.25%, 11/13/2019	250,000	250,625
Air Lease Corp.:		
4.75%, 3/1/2020	45,000	43,425
6.125%, 4/1/2017 (b)	75,000	77,625
Alphabet Holding Co., Inc., 7.75%, 11/1/2017 (PIK)	30,000	30,750
Armored Autogroup, Inc., 9.25%, 11/1/2018	105,000	96,337
BE Aerospace, Inc., 6.875%, 10/1/2020	25,000	27,000
Belden, Inc., 144A, 5.5%, 9/1/2022	55,000	54,038
Bombardier, Inc.:		
144A, 5.75%, 3/15/2022	55,000	54,588
144A, 6.125%, 1/15/2023	45,000	44,663
144A, 7.75%, 3/15/2020	45,000	49,950
Casella Waste Systems, Inc., 7.75%, 2/15/2019	110,000	104,500
DigitalGlobe, Inc., 144A, 5.25%, 2/1/2021	25,000	24,000
Ducommun, Inc., 9.75%, 7/15/2018	65,000	71,012
DynCorp International, Inc., 10.375%, 7/1/2017	85,000	85,425
Ferreycorp SAA, 144A, 4.875%, 4/26/2020	200,000	188,000
Florida East Coast Railway Corp., 8.125%, 2/1/2017	40,000	42,300
FTI Consulting, Inc., 6.75%, 10/1/2020	145,000	152,612
Garda World Security Corp., 144A, 9.75%, 3/15/2017	65,000	68,654
GenCorp, Inc., 144A, 7.125%, 3/15/2021	115,000	119,025
Georgian Railway JSC, 144A, 7.75%, 7/11/2022	200,000	216,140
Grupo KUO SAB De CV, 144A, 6.25%, 12/4/2022	200,000	204,750
Huntington Ingalls Industries, Inc.:		
6.875%, 3/15/2018	50,000	53,438
7.125%, 3/15/2021	10,000	10,750
Ingersoll-Rand Global Holding Co., Ltd., 144A, 2.875%, 1/15/2019	20,000	19,730
Interline Brands, Inc., 7.5%, 11/15/2018	50,000	52,500
Iron Mountain, Inc., 5.75%, 8/15/2024	40,000	37,500
Masco Corp., 7.125%, 3/15/2020	145,000	161,675
Meritor, Inc.:		
6.75%, 6/15/2021	25,000	23,875
10.625%, 3/15/2018	60,000	64,950
Navios Maritime Holdings, Inc.:		
8.125%, 2/15/2019	75,000	71,062
8.875%, 11/1/2017	35,000	36,225
Navios South American Logistics, Inc., 144A, 9.25%, 4/15/2019	10,000	10,725
Nortek, Inc., 8.5%, 4/15/2021	75,000	80,250
Odebrecht Finance Ltd., 144A, 7.125%, 6/26/2042	250,000	242,500
Owens Corning, Inc.:		
4.2%, 12/15/2022	30,000	29,070
9.0%, 6/15/2019	29,000	35,604
Ply Gem Industries, Inc., 9.375%, 4/15/2017	15,000	15,863
Sitel LLC, 11.5%, 4/1/2018	95,000	70,775
Spirit AeroSystems, Inc., 6.75%, 12/15/2020	75,000	78,000
Titan International, Inc.:		
7.875%, 10/1/2017	90,000	94,500
144A, 7.875%, 10/1/2017	20,000	21,000
Total System Services, Inc., 3.75%, 6/1/2023	70,000	64,995
TransDigm, Inc.:		
144A, 7.5%, 7/15/2021 (c)	50,000	51,125
7.75%, 12/15/2018	65,000	68,412
Transnet SOC Ltd., 144A, 4.0%, 7/26/2022	200,000	174,880
U.S. Airways Group, Inc., 6.125%, 6/1/2018	35,000	33,075
United Rentals North America, Inc.:		
5.75%, 7/15/2018	60,000	63,000
7.375%, 5/15/2020	95,000	101,412
7.625%, 4/15/2022	95,000	102,837
Watco Companies LLC, 144A, 6.375%, 4/1/2023	25,000	24,875
		3,966,160
Information Technology 1.4%		
CDW LLC, 8.5%, 4/1/2019	45,000	48,375
eAccess Ltd., 144A, 8.25%, 4/1/2018	60,000	65,700
EarthLink, Inc., 144A, 7.375%, 6/1/2020	30,000	28,800
Equinix, Inc.:		
4.875%, 4/1/2020	40,000	39,200
5.375%, 4/1/2023	105,000	102,900
7.0%, 7/15/2021	40,000	43,400
First Data Corp.:		
144A, 6.75%, 11/1/2020	110,000	111,925
144A, 7.375%, 6/15/2019	45,000	46,237
144A, 8.875%, 8/15/2020	85,000	92,650
144A, 10.625%, 6/15/2021	60,000	59,250
Fiserv, Inc., 3.5%, 10/1/2022	95,000	90,167
Freescale Semiconductor, Inc., 144A, 9.25%, 4/15/2018	120,000	129,300
Hughes Satellite Systems Corp.:		
6.5%, 6/15/2019	40,000	42,400
7.625%, 6/15/2021	40,000	42,500
IAC/InterActiveCorp., 144A, 4.75%, 12/15/2022	25,000	23,625
Jabil Circuit, Inc., 7.75%, 7/15/2016 (b)	30,000	33,975
		1,000,404
Materials 6.7%		
Anglo American Capital PLC, 144A, 4.125%, 9/27/2022	250,000	236,119
Ashland, Inc., 144A, 3.875%, 4/15/2018	20,000	19,800
Axiall Corp., 144A, 4.875%, 5/15/2023	10,000	9,500
Ball Corp., 7.375%, 9/1/2019	25,000	27,000
Barrick Gold Corp., 144A, 2.5%, 5/1/2018	40,000	35,895

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	Principal Amount ($)(a)	Value ($)
Bluescope Steel Ltd., 144A, 7.125%, 5/1/2018	25,000	25,375
BOE Intermediate Holding Corp., 144A, 9.0%, 11/1/2017 (PIK)	40,000	38,400
Braskem America Finance Co., 144A, 7.125%, 7/22/2041	200,000	189,250
Cemex SAB de CV, 144A, 9.0%, 1/11/2018	200,000	210,000
Cia Minera Milpo SAA, 144A, 4.625%, 3/28/2023	200,000	182,500
Clearwater Paper Corp., 7.125%, 11/1/2018	65,000	69,550
Crown Americas LLC, 6.25%, 2/1/2021	10,000	10,600
Eagle Spinco, Inc., 144A, 4.625%, 2/15/2021	20,000	19,200
Essar Steel Algoma, Inc.:		
144A, 9.375%, 3/15/2015	220,000	209,000
144A, 9.875%, 6/15/2015	35,000	26,950
Exopack Holding Corp., 10.0%, 6/1/2018	40,000	40,500
FMG Resources (August 2006) Pty Ltd.:		
144A, 6.0%, 4/1/2017 (b)	55,000	53,487
144A, 6.875%, 4/1/2022	15,000	14,550
144A, 7.0%, 11/1/2015	65,000	65,650
144A, 8.25%, 11/1/2019 (b)	45,000	46,350
FQM Akubra, Inc.:		
144A, 7.5%, 6/1/2021	80,000	76,600
144A, 8.75%, 6/1/2020	45,000	46,013
Greif, Inc., 7.75%, 8/1/2019	195,000	223,275
GTL Trade Finance, Inc., 144A, 7.25%, 10/20/2017	200,000	216,000
Hexion U.S. Finance Corp.:		
6.625%, 4/15/2020	15,000	14,963
8.875%, 2/1/2018	95,000	96,900
Huntsman International LLC:		
8.625%, 3/15/2020	60,000	65,250
8.625%, 3/15/2021	25,000	27,438
IAMGOLD Corp., 144A, 6.75%, 10/1/2020	40,000	33,800
International Paper Co., 7.95%, 6/15/2018	145,000	177,541
Kaiser Aluminum Corp., 8.25%, 6/1/2020	40,000	44,300
KGHM International Ltd., 144A, 7.75%, 6/15/2019	115,000	116,725
LyondellBasell Industries NV, 6.0%, 11/15/2021	15,000	16,856
Metalloinvest Finance Ltd., 144A, 6.5%, 7/21/2016	200,000	206,000
Novelis, Inc.:		
8.375%, 12/15/2017	160,000	169,600
8.75%, 12/15/2020	215,000	230,587
Owens-Brockway Glass Container, Inc., 7.375%, 5/15/2016	30,000	33,450
Packaging Dynamics Corp., 144A, 8.75%, 2/1/2016	90,000	90,900
Polymer Group, Inc., 7.75%, 2/1/2019	55,000	57,200
PolyOne Corp., 144A, 5.25%, 3/15/2023	85,000	83,725
Polyus Gold International Ltd., 144A, 5.625%, 4/29/2020	200,000	194,000
Rain CII Carbon LLC, 144A, 8.0%, 12/1/2018	45,000	46,125
Samarco Mineracao SA, 144A, 4.125%, 11/1/2022	200,000	179,000
Sealed Air Corp.:		
144A, 5.25%, 4/1/2023	10,000	9,725
144A, 8.125%, 9/15/2019	30,000	33,450
144A, 8.375%, 9/15/2021	30,000	33,900
Tronox Finance LLC, 144A, 6.375%, 8/15/2020	40,000	37,700
Turkiye Sise ve Cam Fabrikalari AS, 144A, 4.25%, 5/9/2020 (b)	300,000	273,000
Viskase Companies, Inc., 144A, 9.875%, 1/15/2018	145,000	153,337
Votorantim Overseas IV, 144A, 7.75%, 6/24/2020	250,000	279,375
		4,796,411

Telecommunication Services 7.4%

		Principal Amount ($)(a)	Value ($)
America Movil SAB de CV, Series 12, 6.45%, 12/5/2022	MXN	2,000,000	149,481
CC Holdings GS V LLC, 3.849%, 4/15/2023		70,000	66,007
CenturyLink, Inc., Series V, 5.625%, 4/1/2020		15,000	15,150
Cincinnati Bell, Inc.:			
8.25%, 10/15/2017		55,000	57,338
8.375%, 10/15/2020		180,000	184,950
8.75%, 3/15/2018 (b)		170,000	170,212
Colombia Telecomunicaciones SA ESP, 144A, 5.375%, 9/27/2022		200,000	189,000
CPI International, Inc., 8.0%, 2/15/2018		45,000	46,350
Cricket Communications, Inc., 7.75%, 10/15/2020 (b)		280,000	268,800
Deutsche Telekom International Finance BV, 144A, 4.875%, 3/6/2042		200,000	195,098
Digicel Group Ltd., 144A, 10.5%, 4/15/2018		100,000	106,000
Digicel Ltd., 144A, 8.25%, 9/1/2017		400,000	416,000
ERC Ireland Preferred Equity Ltd., 144A, 7.69%**, 2/15/2017 (PIK)*	EUR	88,319	0
Frontier Communications Corp.:			
7.125%, 1/15/2023 (b)		200,000	199,000
7.625%, 4/15/2024		15,000	15,038
8.25%, 4/15/2017		62,000	69,750
8.5%, 4/15/2020		90,000	99,225
8.75%, 4/15/2022		10,000	10,900
Intelsat Jackson Holdings SA:			
144A, 5.5%, 8/1/2023		85,000	79,900
144A, 6.625%, 12/15/2022		35,000	33,950
7.25%, 10/15/2020		195,000	204,750
7.5%, 4/1/2021		195,000	204,750
8.5%, 11/1/2019		100,000	107,750
Intelsat Luxembourg SA:			
144A, 7.75%, 6/1/2021		95,000	95,950
144A, 8.125%, 6/1/2023		10,000	10,325

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	Principal Amount ($)(a)	Value ($)
Level 3 Communications, Inc., 8.875%, 6/1/2019	10,000	10,400
Level 3 Financing, Inc.:		
7.0%, 6/1/2020	75,000	74,812
8.125%, 7/1/2019	75,000	78,750
8.625%, 7/15/2020	50,000	53,250
MetroPCS Wireless, Inc.:		
6.625%, 11/15/2020	65,000	67,437
144A, 6.625%, 4/1/2023	35,000	35,613
7.875%, 9/1/2018	75,000	79,875
Millicom International Cellular SA, 144A, 4.75%, 5/22/2020	200,000	190,052
NII Capital Corp., 7.625%, 4/1/2021	50,000	38,875
SBA Communications Corp., 144A, 5.625%, 10/1/2019	30,000	29,700
SBA Telecommunications, Inc., 8.25%, 8/15/2019	16,000	17,320
Sprint Nextel Corp.:		
6.0%, 12/1/2016	320,000	337,600
6.0%, 11/15/2022	50,000	49,000
8.375%, 8/15/2017	55,000	61,737
9.125%, 3/1/2017	50,000	57,500
Syniverse Holdings, Inc., 9.125%, 1/15/2019	25,000	26,688
Telefonica Emisiones SAU, 4.57%, 4/27/2023	170,000	162,741
Telemar Norte Leste SA, 144A, 5.5%, 10/23/2020	200,000	186,000
Telemovil Finance Co., Ltd., 144A, 8.0%, 10/1/2017	100,000	105,750
tw telecom holdings, Inc., 5.375%, 10/1/2022	35,000	34,738
Wind Acquisition Finance SA, 144A, 6.5%, 4/30/2020	30,000	29,775
Windstream Corp.:		
6.375%, 8/1/2023	40,000	37,400
7.0%, 3/15/2019	60,000	60,150
7.5%, 6/1/2022	25,000	25,500
7.5%, 4/1/2023	75,000	76,125
7.75%, 10/15/2020 (b)	35,000	36,225
7.875%, 11/1/2017	205,000	224,987
8.125%, 9/1/2018	70,000	74,550
		5,258,224
Utilities 2.7%		
AES Corp.:		
4.875%, 5/15/2023 (b)	15,000	13,987
8.0%, 10/15/2017	10,000	11,250
8.0%, 6/1/2020	175,000	199,500
American Electric Power Co., Inc., Series F, 2.95%, 12/15/2022	140,000	130,325
Calpine Corp.:		
144A, 7.5%, 2/15/2021	72,000	76,860
144A, 7.875%, 7/31/2020	79,000	85,715
Electricite de France SA, 144A, 5.25%, 1/29/2049	100,000	95,600
Energy Future Holdings Corp., Series Q, 6.5%, 11/15/2024	100,000	68,500
Instituto Costarricense de Electricidad, 144A, 6.95%, 11/10/2021	200,000	210,500
IPALCO Enterprises, Inc., 5.0%, 5/1/2018	145,000	149,350

	Principal Amount ($)(a)	Value ($)
Mexico Generadora de Energia S de rl, 144A, 5.5%, 12/6/2032	200,000	188,000
NRG Energy, Inc., 7.625%, 1/15/2018	35,000	37,450
Oncor Electric Delivery Co., LLC, 4.1%, 6/1/2022	160,000	165,084
PPL Energy Supply LLC, 4.6%, 12/15/2021	200,000	203,525
Toledo Edison Co., 7.25%, 5/1/2020	203,000	251,270
		1,886,916
Total Corporate Bonds (Cost $39,931,725)		**39,699,052**

Mortgage-Backed Securities Pass-Throughs 7.3%

	Principal Amount ($)(a)	Value ($)
Federal National Mortgage Association, 3.5%, 1/1/2042 (c)	1,000,000	1,015,625
Government National Mortgage Association:		
3.0%, 10/1/2042 (c)	1,000,000	989,375
4.0%, 3/1/2041 (c)	3,000,000	3,152,109
Total Mortgage-Backed Securities Pass-Throughs (Cost $5,412,617)		**5,157,109**

Asset-Backed 0.9%

Home Equity Loans 0.5%

	Principal Amount ($)(a)	Value ($)
CIT Group Home Equity Loan Trust, "AF6", Series 2002-1, 6.2%, 2/25/2030	64,977	64,783
Citifinancial Mortgage Securities, Inc., "AFS", Series 2003-4, 5.326%, 10/25/2033	190,000	198,407
Countrywide Home Equity Loan Trust, "2A", Series 2006-I, 0.333%**, 1/15/2037	134,403	117,697
		380,887
Miscellaneous 0.4%		
ARES CLO Ltd., "D", Series 2012-3A, 144A, 4.958%, 1/17/2024	250,000	**249,611**
Total Asset-Backed (Cost $578,591)		**630,498**

Commercial Mortgage-Backed Securities 3.6%

	Principal Amount ($)(a)	Value ($)
Banc of America Large Loan, Inc., "HLTN", Series 2010-HLTN, 144A, 2.493%**, 11/15/2015	536,232	536,648
Commercial Mortgage Trust, "AM", Series 2007-GG11, 5.867%, 12/10/2049	290,000	310,666
Del Coronado Trust, "M", Series 2013-HDMZ, 144A, 5.193%**, 3/15/2018	80,000	80,416
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"C", Series 2012-HSBC, 144A, 4.021%, 7/5/2032	150,000	145,204
"A4", Series 2006-LDP7, 6.056%**, 4/15/2045	140,000	154,678
LB-UBS Commercial Mortgage Trust, "A3", Series 2006-C7, 5.347%, 11/15/2038	440,000	486,614

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	Principal Amount ($)(a)	Value ($)
Wachovia Bank Commercial Mortgage Trust, "A4", Series 2005-C22, 5.465%**, 12/15/2044	140,000	151,509
WF-RBS Commercial Mortgage Trust, "A5", Series 2013-C14, 3.337%, 6/15/2046	750,000	715,028
Total Commercial Mortgage-Backed Securities (Cost $2,527,509)		**2,580,763**

Collateralized Mortgage Obligations 3.5%

	Principal Amount ($)(a)	Value ($)
Banc of America Mortgage Securities, "2A2", Series 2004-A, 2.958%**, 2/25/2034	122,947	120,392
Bear Stearns Adjustable Rate Mortgage Trust, "2A1", Series 2005-11, 3.335%**, 12/25/2035	165,625	163,856
Countrywide Home Loans, "2A5", Series 2004-13, 5.75%, 8/25/2034	118,025	119,792
Federal Home Loan Mortgage Corp.:		
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025	1,458,503	105,029
"JI", Series 3558, Interest Only, 4.5%, 12/15/2023	80,296	3,869
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038	513,223	62,630
"HI", Series 2934, Interest Only, 5.0%, 2/15/2020	159,677	16,674
"WI", Series 3010, Interest Only, 5.0%, 7/15/2020	262,391	28,610
"JS", Series 3572, Interest Only, 6.608%***, 9/15/2039	887,444	137,524
Federal National Mortgage Association:		
"BI", Series 2010-13, Interest Only, 5.0%, 12/25/2038	147,624	12,223
"SK", Series 2011-78, Interest Only, 5.807%***, 8/25/2041	1,866,319	231,204
"PI", Series 2006-20, Interest Only, 6.487%***, 11/25/2030	511,611	92,642
"SI", Series 2007-23, Interest Only, 6.577%***, 3/25/2037	380,087	67,217
"JS", Series 2004-59, Interest Only, 6.907%***, 4/25/2023	45,220	457
Government National Mortgage Association:		
"GP", Series 2010-67, 4.5%, 3/20/2039	250,000	271,399
"MI", Series 2009-76, Interest Only, 5.0%, 3/20/2035	278,777	9,705
"ID", Series 2003-79, Interest Only, 5.5%, 12/20/2031	8,753	37
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	567,912	92,510
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	574,961	92,253
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	525,104	96,869
"AI", Series 2007-38, Interest Only, 6.268%***, 6/16/2037	144,427	19,582
JPMorgan Mortgage Trust, "2A1", Series 2006-A2, 2.725%**, 4/25/2036	351,134	305,683
Merrill Lynch Mortgage Investors Trust, "2A", Series 2003-A6, 3.132%**, 10/25/2033	96,360	97,044
Morgan Stanley Mortgage Loan Trust, "5A5", Series 2005-4, 5.5%, 8/25/2035	38,862	38,712
Washington Mutual Mortgage Pass-Through Certificates Trust, "1A1", Series 2005-AR12, 2.444%**, 10/25/2035	5,722	5,725
Wells Fargo Mortgage-Backed Securities Trust:		
"2A3",Series 2004-EE, 2.624%**, 12/25/2034	149,972	147,498
"B1", Series 2004-1, 5.5%, 2/25/2034	173,123	172,785
Total Collateralized Mortgage Obligations (Cost $2,556,368)		**2,511,921**

Government & Agency Obligations 16.8%

Other Government Related (d) 4.3%

		Principal Amount ($)(a)	Value ($)
European Investment Bank:			
144A, 4.6%, 1/30/2037	CAD	1,000,000	972,625
6.0%, 8/6/2020	AUD	500,000	485,883
KFW, 1.875%, 6/13/2018	CAD	605,000	563,017
Queensland Treasury Corp., Series 23, 4.25%, 7/21/2023	AUD	1,180,000	1,031,788
			3,053,313

Sovereign Bonds 4.4%

		Principal Amount ($)(a)	Value ($)
Federative Republic of Brazil, 12.5%, 1/5/2016	BRL	250,000	119,322
Government of Canada, 0.75%, 5/1/2014	CAD	1,400,000	1,327,105
Government of Japan, Series 144, 1.5%, 3/20/2033	JPY	66,000,000	644,201
Government of Ukraine, 144A, 6.58%, 11/21/2016		250,000	231,875
Republic of Argentina-Inflation Linked Bond, 5.83%, 12/31/2033	ARS	375	87
Republic of Belarus, REG S, 8.75%, 8/3/2015		145,000	145,363
Russian Federation:			
Series 6204, 7.5%, 3/15/2018	RUB	2,000,000	62,775
Series 6207, 8.15%, 2/3/2027	RUB	6,000,000	187,544
Slovenia Government International Bond, 144A, 4.75%, 5/10/2018		200,000	190,000
United Mexican States:			
Series M, 7.75%, 5/29/2031	MXN	1,640,000	139,876
Series M 20, 8.5%, 5/31/2029	MXN	820,000	75,433
			3,123,581

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

	Principal Amount ($)(a)	Value ($)
U.S. Government Sponsored Agencies 0.8%		
Federal Home Loan Mortgage Corp., 2.375%, 1/13/2022	220,000	212,898
Federal National Mortgage Association, 0.875%, 5/21/2018	390,000	377,646
		590,544
U.S. Treasury Obligations 7.3%		
U.S. Treasury Bills, 0.1%****, 9/5/2013 (e)	463,000	462,983
U.S. Treasury Bonds:		
3.0%, 5/15/2042	600,000	546,937
4.75%, 2/15/2037	400,000	493,500
U.S. Treasury Notes:		
0.75%, 6/15/2014	500,000	502,637
1.5%, 7/31/2016	2,625,000	2,687,549
1.625%, 11/15/2022	400,000	373,406
1.75%, 5/15/2023	98,000	91,783
		5,158,795
Total Government & Agency Obligations (Cost $12,700,997)		**11,926,233**

Loan Participations and Assignments 7.0%

	Principal Amount ($)(a)	Value ($)
Senior Loans 4.3%**		
Buffalo Gulf Coast Terminals LLC, Term Loan, 5.25%, 10/31/2017	74,438	75,554
Buffets, Inc., Letter of Credit, First Lien, LIBOR plus 9.25%, 4/22/2015*	9,378	4,384
Burger King Corp., Term Loan B, 3.75%, 9/27/2019	69,475	70,008
Calpine Corp., Term Loan B1, 4.0%, 4/2/2018	194,503	194,555
Charter Communications Operating LLC, Term Loan E, 3.0%, 4/10/2020	195,000	193,050
Chesapeake Energy Corp., Term Loan, 5.75%, 12/1/2017	75,000	76,078
Crown Castle International Corp., Term Loan, 3.25%, 1/31/2019	49,499	49,257
Cumulus Media Holdings, Inc., Second Lien Term Loan, 7.5%, 9/16/2019	50,000	51,187
Goodyear Tire & Rubber Co., Second Lien Term Loan, 4.75%, 4/30/2019	220,000	221,042
HJ Heinz Co., Term Loan B2, 3.5%, 6/5/2020	250,000	250,270
Kabel Deutschland GmbH, Term Loan F1, 3.25%, 2/1/2019	385,000	384,673
MacDermid, Inc., First Lien Term Loan, 4.0%, 6/7/2020	55,000	54,794
MEG Energy Corp., Term Loan, 3.75%, 3/31/2020	259,671	259,866
NRG Energy, Inc., Term Loan B, 2.75%, 7/2/2018	119,095	118,140
Par Pharmaceutical Companies, Inc., Term Loan B, 4.25%, 9/30/2019	119,102	118,521
Pilot Travel Centers LLC:		
Term Loan B, 3.75%, 3/30/2018	90,284	89,127
Term Loan B2, 4.25%, 8/7/2019	337,450	333,760
Tomkins LLC, First Lien Term Loan, 5.0%, 11/9/2018	64,675	65,160
Samson Investment Co., Second Lien Term Loan, 6.0%, 9/25/2018	175,000	175,000
Tallgrass Operations LLC, Term Loan, 5.25%, 11/13/2018	110,261	111,019
Travelport LLC, Second Lien Term Loan, 9.5%, 1/29/2016	5,040	5,179
Univision Communications, Inc., Term Loan, 4.5%, 3/2/2020	59,809	59,361
Warner Chilcott Co., LLC, Term Loan B2, 4.25%, 3/15/2018	3,845	3,855
Warner Chilcott Corp.:		
Incremental Term Loan B1, 4.25%, 3/15/2018	12,447	12,477
Term Loan B1, 4.25%, 3/15/2018	28,594	28,662
WC Luxco S.a.r.l., Term Loan B3, 4.25%, 3/15/2018	22,532	22,586
WP Prism, Inc., Term Loan, 6.25%, 5/31/2018	35,000	35,117
		3,062,682
Sovereign Loans 2.7%		
Bank of Moscow, 144A, 6.699%, 3/11/2015	250,000	263,112
Gazprom Neft OAO, 144A, 4.375%, 9/19/2022	250,000	228,963
Gazprom OAO, 144A, 9.25%, 4/23/2019	100,000	120,500
National JSC Naftogaz of Ukraine, 9.5%, 9/30/2014	250,000	249,375
RZD Capital PLC, 5.739%, 4/3/2017	250,000	265,000
TMK OAO, 144A, 6.75%, 4/3/2020	200,000	185,500
Uralkali OJSC, 144A, 3.723%, 4/30/2018 (b)	200,000	192,250
Vimpel Communications, 144A, 9.125%, 4/30/2018	200,000	227,500
VTB Bank OJSC, 144A, 6.0%, 4/12/2017	200,000	208,000
		1,940,200
Total Loan Participations and Assignments (Cost $5,052,744)		**5,002,882**

Municipal Bonds and Notes 1.3%

	Principal Amount ($)(a)	Value ($)
Chicago, IL, Airport Revenue, O'Hare International Airport, Series B, 6.0%, 1/1/2041	145,000	163,089
Massachusetts, State School Building Authority, Sales Tax Revenue, Qualified School Construction Bond, Series A, 4.885%, 7/15/2028	300,000	317,751
Orlando & Orange County, FL, Expressway Authority Revenue, Series C, 5.0%, 7/1/2040	145,000	150,375
Port Authority of New York & New Jersey, 4.926%, 10/1/2051	260,000	260,606
Total Municipal Bonds and Notes (Cost $851,179)		**891,821**

Convertible Bonds 0.4%

	Principal Amount ($)(a)	Value ($)
Consumer Discretionary 0.2%		
Group 1 Automotive, Inc., 3.0%, 3/15/2020	65,000	**117,731**

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

	Principal Amount ($)(a)	Value ($)
Materials 0.2%		
GEO Specialty Chemicals, Inc., 144A, 7.5%, 3/31/2015	120,175	**186,127**
Total Convertible Bonds (Cost $183,237)		**303,858**

	Principal Amount ($)(a)	Value ($)
Preferred Security 0.1%		
Materials		
Hercules, Inc., 6.5%, 6/30/2029 (Cost $58,834)	95,000	**82,650**

	Units	Value ($)
Other Investments 0.1%		
Consumer Discretionary		
AOT Bedding Super Holdings LLC* (f) (Cost $4,000)	10	**34,776**

	Shares	Value ($)
Common Stocks 0.0%		
Consumer Discretionary 0.0%		
Buffets Restaurants Holdings, Inc.*	84	525
Trump Entertainment Resorts, Inc.*	6	0
Vertis Holdings, Inc.*	63	0
		525
Industrials 0.0%		
Congoleum Corp.*	2,500	**0**
Materials 0.0%		
GEO Specialty Chemicals, Inc.*	2,058	1,224
Wolverine Tube, Inc.*	778	14,097
		15,321
Total Common Stocks (Cost $40,747)		**15,846**
Preferred Stock 0.1%		
Financials		
Ally Financial, Inc., 144A, 7.0% (Cost $56,382)	60	**57,032**
Warrants 0.0%		
Consumer Discretionary 0.0%		
Reader's Digest Association, Inc., Expiration Date 2/19/2014*	159	**0**
Materials 0.0%		
GEO Specialty Chemicals, Inc., Expiration Date 3/31/2015*	11,138	6,539
Hercules Trust II, Expiration Date 3/31/2029*	85	1,125
		7,664
Total Warrants (Cost $17,432)		**7,664**

	Shares	Value ($)
Exchange-Traded Fund 1.0%		
SPDR Barclays Capital Convertible Securities (Cost $759,882)	17,300	**738,364**

	Contracts	Value ($)
Call Options Purchased 0.6%		
Options on Exchange-Traded Futures Contracts 0.0%		
10 Year U.S. Treasury Note Future, Expiration Date 8/23/2013, Strike Price $132.5	100	**4,687**

	Contract Amount	Value ($)
Options on Interest Rate Swap Contracts 0.6%		
Pay Fixed Rate — 3.583% – Receive Floating — LIBOR, Swap Expiration Date 5/11/2026, Option Expiration Date 5/9/2016[1]	1,400,000	88,550
Pay Fixed Rate — 3.635% – Receive Floating — LIBOR, Swap Expiration Date 4/27/2026, Option Expiration Date 4/25/2016[2]	1,300,000	78,563
Pay Fixed Rate — 3.72% – Receive Floating — LIBOR, Swap Expiration Date 4/22/2026, Option Expiration Date 4/20/2016[3]	1,300,000	73,784
Pay Fixed Rate — 4.19% – Receive Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[4]	1,500,000	77,864
Pay Fixed Rate — 4.32% – Receive Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[5]	1,400,000	66,926
		385,687
Total Call Options Purchased (Cost $362,335)		**390,374**
Put Options Purchased 0.0%		
Options on Interest Rate Swap Contracts		
Receive Fixed Rate — 2.19% – Pay Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[4]	1,500,000	15,577
Receive Fixed Rate — 2.32% – Pay Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[5]	1,400,000	17,172
Total Put Options Purchased (Cost $98,573)		**32,749**

	Shares	Value ($)
Securities Lending Collateral 2.4%		
Daily Assets Fund Institutional, 0.10% (g) (h) (Cost $1,669,599)	1,669,599	**1,669,599**

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

	Shares	Value ($)
Cash Equivalents 9.1%		
Central Cash Management Fund, 0.07% (g) (Cost $6,422,777)	6,422,777	**6,422,777**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $79,285,528)†	110.1	**78,155,968**
Other Assets and Liabilities, Net (b)	(10.1)	**(7,158,430)**
Net Assets	100.0	**70,997,538**

The following table represents bonds and senior loans that are in default:

Securities	Coupon	Maturity Date	Principal Amount		Cost ($)	Value ($)
Buffets, Inc.*	LIBOR plus 9.25%	4/22/2015	USD	9,378	9,121	4,384
ERC Ireland Preferred Equity Ltd.*	7.69%	2/15/2017	EUR	88,319	120,275	0
Fontainebleau Las Vegas Holdings LLC*	11.0%	6/15/2015	USD	65,000	65,000	0
Hellas Telecommunications Finance SCA*	8.21%	7/15/2015	EUR	109,187	32,169	0
					226,565	**4,384**

* 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, 2013.

*** These securities are shown at their current rate as of June 30, 2013.

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

† The cost for federal income tax purposes was $79,285,568. At June 30, 2013, net unrealized depreciation for all securities based on tax cost was $1,129,600. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $1,867,153 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,996,753.

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

(b) All or a portion of these securities were on loan amounting to $1,469,520. In addition, included in other assets and liabilities, net is a pending sale, amounting to $111,394, that is also on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2013 amounted to $1,580,914, which is 2.2% 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, 2013, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(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	34,776	.05

(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.

CLO: Collateralized Loan Obligation

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

The Fund can invest in certain Senior Loan agreements that include the obligation to make additional loans in certain circumstances. The Fund reserves against such contingent obligations by segregating cash, liquid securities and liquid Senior Loans. At June 30, 2013, the Fund had an unfunded loan commitment of $50,000, which could be extended at the option of the borrower, pursuant to the following loan agreement:

Borrower	Unfunded Loan Commitment ($)	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
Tallgrass Operations LLC, Term Delay Draw, 11/13/2017	50,000	50,000	—

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

At June 30, 2013, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year Canadian Government Bond	CAD	9/19/2013	15	1,874,251	(75,535)
10 Year U.S. Treasury Note	USD	9/19/2013	9	1,139,063	6,932
Federal Republic of Germany Euro-Bund	EUR	9/6/2013	10	1,842,094	(36,334)
Total net unrealized depreciation					**(104,937)**

At June 30, 2013, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year U.S. Treasury Note	USD	9/19/2013	1	126,563	3,392
5 Year U.S. Treasury Note	USD	9/30/2013	20	2,420,938	39,959
Ultra Long U.S. Treasury Bond	USD	9/19/2013	3	441,938	(7,373)
Total net unrealized appreciation					**35,978**

At June 30, 2013, open written options contracts were as follows:

Options on Exchange-Traded Futures Contracts	Contracts	Expiration Date	Strike Price ($)	Premiums Received ($)	Value ($) (i)
Put Options					
10 Year U.S. Treasury Note Future	60	8/23/2013	130.0	50,475	**(217,500)**

(i) Unrealized depreciation on written options on exchange-traded futures contracts at June 30, 2013 was $167,025.

Options on Interest Rate Swap Contracts	Swap Effective/ Expiration Date	Contract Amount	Option Expiration Date	Premiums Received ($)	Value ($) (j)
Call Options					
Receive Fixed — 3.19% – Pay Floating — LIBOR	2/3/2017 2/3/2027	700,000[4]	2/1/2017	50,400	(65,697)
Receive Fixed — 3.32% – Pay Floating — LIBOR	2/3/2017 2/3/2027	700,000[5]	2/1/2017	50,631	(61,145)
Receive Fixed — 4.083% – Pay Floating — LIBOR	5/11/2016 5/11/2026	1,400,000[1]	5/9/2016	47,600	(62,856)
Receive Fixed — 4.135% – Pay Floating — LIBOR	4/27/2016 4/27/2026	1,300,000[2]	4/25/2016	48,100	(55,423)
Receive Fixed — 4.22% – Pay Floating — LIBOR	4/22/2016 4/22/2026	1,300,000[3]	4/20/2016	46,345	(51,889)
Total Call Options				**243,076**	**(297,010)**
Put Options					
Pay Fixed — 3.19% – Receive Floating — LIBOR	2/3/2017 2/3/2027	700,000[4]	2/1/2017	50,400	(21,655)
Pay Fixed — 3.32% – Receive Floating — LIBOR	2/3/2017 2/3/2027	700,000[5]	2/1/2017	50,631	(24,354)
Total Put Options				**101,031**	**(46,009)**
Total				**344,107**	**(343,019)**

(j) Unrealized appreciation on written options on interest rate swap contracts at June 30, 2013 was $1,088.

At June 30, 2013, open credit default swap contracts sold were as follows:

Effective/ Expiration Date	Notional Amount ($) (k)	Fixed Cash Flows Received	Underlying Debt Obligation/Quality Rating (l)	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Appreciation ($)
6/21/2010 9/20/2013	70,000[2]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BBB–	904	858	46
6/21/2010 9/20/2015	90,000[1]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BBB–	8,621	(1,604)	10,225
3/21/2011 6/20/2016	120,000[4]	5.0%	HCA, Inc., 6.375%, 1/15/2015, B–	11,653	2,670	8,983
12/20/2011 3/20/2017	60,000[6]	5.0%	CIT Group, Inc., 5.5%, 2/15/2019, BB–	7,484	1,882	5,602
9/20/2012 12/20/2017	75,000[7]	5.0%	General Motors Corp., 3.3%, 12/20/2017, BB+	9,327	4,986	4,341
Total unrealized appreciation						**29,197**

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

(k) 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, if any.

(l) 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.

At June 30, 2013, 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) ($)	Unrealized Appreciation/ (Depreciation) ($)
7/16/2013 7/16/2014	1,800,000[3]	Floating — LIBOR	Fixed — 0.515%	2,672	(49)	2,721
4/13/2012 4/13/2016	1,500,000[5]	Floating — LIBOR	Fixed — 1.22%	23,138	—	23,138
7/16/2013 7/16/2018	800,000[3]	Floating — LIBOR	Fixed — 1.148%	(16,921)	(149)	(16,772)
7/16/2013 7/16/2043	400,000[3]	Fixed — 2.424%	Floating — LIBOR	78,489	(264)	78,753
Total net unrealized appreciation						**87,840**

Counterparties:

1 Bank of America

2 Citigroup, Inc.

3 Nomura International PLC

4 JPMorgan Chase Securities, Inc.

5 BNP Paribas

6 Credit Suisse

7 UBS AG

At June 30, 2013, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	6,112	NOK	37,258	7/5/2013	21	Citigroup, Inc.
AUD	400,000	USD	416,737	7/5/2013	50,998	Nomura International PLC
NOK	6,897,969	EUR	900,000	7/5/2013	36,024	Citigroup, Inc.
GBP	600,000	USD	915,844	7/5/2013	3,292	JPMorgan Chase Securities, Inc.
AUD	550,000	USD	566,751	7/9/2013	64,008	Nomura International PLC
CAD	1,500,000	USD	1,464,325	7/9/2013	38,298	JPMorgan Chase Securities, Inc.
JPY	50,000,000	USD	514,510	7/10/2013	10,361	Nomura International PLC
EUR	400,000	USD	529,828	7/11/2013	9,150	JPMorgan Chase Securities, Inc.
GBP	400,000	USD	622,038	7/11/2013	13,696	BNP Paribas
SGD	1,200,000	USD	964,406	7/11/2013	17,643	JPMorgan Chase Securities, Inc.
EUR	400,000	USD	530,739	7/11/2013	10,061	Barclays Bank PLC
AUD	1,000,000	NZD	1,193,440	7/12/2013	10,315	Citigroup, Inc.
CZK	10,700,000	USD	549,338	7/12/2013	13,934	Bank of America
CZK	10,600,000	USD	548,778	7/12/2013	18,378	BNP Paribas
USD	554,715	ZAR	5,500,000	7/15/2013	629	Barclays Bank PLC
NZD	700,000	USD	557,877	7/15/2013	15,917	Citigroup, Inc.
JPY	40,000,000	USD	409,271	7/16/2013	5,943	Bank of America
JPY	40,000,000	USD	403,434	7/16/2013	106	Nomura International PLC
EUR	500,000	USD	666,156	7/17/2013	15,292	Nomura International PLC
GBP	500,000	USD	783,592	7/17/2013	23,195	JPMorgan Chase Securities, Inc.
EUR	53,420	USD	71,213	7/19/2013	1,673	Citigroup, Inc.
JPY	50,000,000	USD	507,389	7/24/2013	3,214	Barclays Bank PLC
USD	359,940	ZAR	3,700,000	7/25/2013	13,113	Barclays Bank PLC
USD	546,437	AUD	600,000	7/26/2013	1,326	JPMorgan Chase Securities, Inc.
CAD	600,000	USD	570,406	7/26/2013	224	Nomura International PLC
AUD	600,000	USD	554,356	7/26/2013	6,593	BNP Paribas
AUD	800,000	USD	797,233	7/31/2013	67,150	BNP Paribas
AUD	384,230	USD	373,090	7/31/2013	22,440	JPMorgan Chase Securities, Inc.

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

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
CAD	474,672	USD	459,888	7/31/2013	8,859	Nomura International PLC
CAD	700,000	USD	685,248	7/31/2013	20,114	JPMorgan Chase Securities, Inc.
JPY	20,000,000	USD	204,765	8/1/2013	3,089	Nomura International PLC
USD	704,979	JPY	70,000,000	8/2/2013	890	JPMorgan Chase Securities, Inc.
Total unrealized appreciation					**505,946**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
USD	418,500	AUD	400,000	7/5/2013	(52,761)	Barclays Bank PLC
EUR	900,000	NOK	6,860,711	7/5/2013	(42,158)	UBS AG
USD	606,394	JPY	60,000,000	7/5/2013	(1,427)	Nomura International PLC
USD	934,281	GBP	600,000	7/5/2013	(21,730)	BNP Paribas
JPY	60,000,000	USD	598,871	7/5/2013	(6,096)	Nomura International PLC
EUR	750,000	USD	975,089	7/9/2013	(1,176)	Nomura International PLC
USD	517,253	JPY	50,000,000	7/10/2013	(13,104)	Barclays Bank PLC
USD	622,176	GBP	400,000	7/11/2013	(13,833)	Barclays Bank PLC
USD	954,483	SGD	1,200,000	7/11/2013	(7,720)	Nomura International PLC
USD	1,064,816	EUR	800,000	7/11/2013	(23,459)	Barclays Bank PLC
USD	5,807	NZD	7,496	7/12/2013	(2)	Barclays Bank PLC
NZD	722,701	AUD	600,000	7/12/2013	(11,329)	Nomura International PLC
NZD	478,235	AUD	400,000	7/12/2013	(4,791)	BNP Paribas
USD	1,111,047	CZK	21,300,000	7/12/2013	(45,243)	Barclays Bank PLC
USD	365,646	INR	21,500,000	7/15/2013	(4,686)	Citigroup, Inc.
USD	563,105	NZD	700,000	7/15/2013	(21,145)	JPMorgan Chase Securities, Inc.
ZAR	5,500,000	USD	548,549	7/15/2013	(6,794)	UBS AG
INR	21,500,000	USD	353,154	7/15/2013	(7,806)	Citigroup, Inc.
USD	806,926	JPY	80,000,000	7/16/2013	(269)	Nomura International PLC
USD	786,250	GBP	500,000	7/17/2013	(25,853)	UBS AG
USD	661,154	EUR	500,000	7/17/2013	(10,290)	Nomura International PLC
USD	546,922	ZAR	5,400,000	7/19/2013	(1,992)	JPMorgan Chase Securities, Inc.
ZAR	5,400,000	USD	540,997	7/19/2013	(3,933)	JPMorgan Chase Securities, Inc.
NOK	3,175,719	EUR	400,000	7/24/2013	(1,712)	BNP Paribas
USD	511,669	JPY	50,000,000	7/24/2013	(7,494)	Nomura International PLC
ZAR	3,700,000	USD	365,576	7/25/2013	(7,477)	Citigroup, Inc.
TWD	16,000,000	USD	532,269	7/29/2013	(1,689)	JPMorgan Chase Securities, Inc.
JPY	66,316,538	USD	667,690	7/31/2013	(1,031)	Nomura International PLC
USD	555,146	ZAR	5,500,000	8/1/2013	(1,172)	Citigroup, Inc.
USD	201,918	JPY	20,000,000	8/1/2013	(242)	UBS AG
ZAR	5,500,000	USD	549,940	8/1/2013	(4,035)	Citigroup, Inc.
USD	1,272,516	MXN	16,450,000	8/19/2013	(8,368)	JPMorgan Chase Securities, Inc.
Total unrealized depreciation					**(360,817)**	

Currency Abbreviations

ARS	Argentine Peso	GBP	British Pound	RUB	Russian Ruble
AUD	Australian Dollar	INR	Indian Rupee	SGD	Singapore Dollar
BRL	Brazilian Real	JPY	Japanese Yen	TWD	Taiwan Dollar
CAD	Canadian Dollar	MXN	Mexican Peso	USD	United States Dollar
CZK	Czech Koruna	NOK	Norwegian Krone	ZAR	South African Rand
EUR	Euro	NZD	New Zealand Dollar		

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.

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, 2013 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	$ —	$ 39,699,052	$ 0	$ 39,699,052
Mortgage-Backed Securities Pass-Throughs	—	5,157,109	—	5,157,109
Asset-Backed	—	630,498	—	630,498
Commercial Mortgage-Backed Securities	—	2,580,763	—	2,580,763
Collateralized Mortgage Obligations	—	2,511,921	—	2,511,921
Government & Agency Obligations	—	11,926,233	—	11,926,233
Loan Participations and Assignments	—	5,002,882	—	5,002,882
Municipal Bonds and Notes	—	891,821	—	891,821
Convertible Bonds	—	117,731	186,127	303,858
Preferred Security	—	82,650	—	82,650
Other Investments	—	—	34,776	34,776
Common Stocks (m)	—	525	15,321	15,846
Preferred Stock	—	57,032	—	57,032
Warrants (m)	—	—	7,664	7,664
Exchange-Traded Fund	738,364	—	—	738,364
Short-Term Investments (m)	8,092,376	—	—	8,092,376
Derivatives (n)				
Purchased Options	4,687	418,436	—	423,123
Futures Contracts	50,283	—	—	50,283
Credit Default Swap Contracts	—	29,197	—	29,197
Interest Rate Swap Contracts	—	104,612	—	104,612
Forward Foreign Currency Exchange Contracts	—	505,946	—	505,946
Total	**$ 8,885,710**	**$ 69,716,408**	**$ 243,888**	**$ 78,846,006**

Liabilities				
Derivatives (n)				
Written Options	$ (217,500)	$ (343,019)	$ —	$ (560,519)
Futures Contracts	(119,242)	—	—	(119,242)
Interest Rate Swap Contracts	—	(16,772)	—	(16,772)
Forward Foreign Currency Exchange Contracts	—	(360,817)	—	(360,817)
Total	**$ (336,742)**	**$ (720,608)**	**$ —**	**$ (1,057,350)**

During the period ended June 30, 2013, the amount of transfers between Level 2 and Level 3 was $41. Investments were transferred from Level 2 to Level 3 because of the lack of observable market data due to a decrease in market activity.

Transfers between price levels are recognized at the beginning of the reporting period.

(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.

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

Statement of Assets and Liabilities

as of June 30, 2013 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $71,193,152) — including $1,469,520 of securities loaned	$	70,063,592
Investment in Daily Assets Fund Institutional (cost $1,669,599)*		1,669,599
Investment in Central Cash Management Fund (cost $6,422,777)		6,422,777
Total investments in securities, at value (cost $79,285,528)		78,155,968
Cash		27,691
Foreign currency, at value (cost $809,270)		807,321
Receivable for investments sold		233,081
Receivable for investments sold — when-issued/delayed delivery securitites		6,963,862
Receivable for Fund shares sold		6,734
Interest receivable		891,597
Receivable for variation margin on futures contracts		13,707
Unrealized appreciation on swap contracts		133,809
Unrealized appreciation on forward foreign currency exchange contracts		505,946
Upfront payments paid on swap contracts		10,396
Other assets		853
Total assets	$	87,750,965
Liabilities		
Payable upon return of securities loaned		1,669,599
Payable for investments purchased		1,502,444
Payable for investments purchased — when-issued/delayed delivery securities		12,506,590
Payable for Fund shares redeemed		39,940
Options written, at value (premiums received $394,582)		560,519
Unrealized depreciation on swap contracts		16,772
Unrealized depreciation on forward foreign currency exchange contracts		360,817
Upfront payments received on swap contracts		2,066
Accrued management fee		19,213
Accrued Trustees' fees		26
Other accrued expenses and payables		75,441
Total liabilities		16,753,427
Net assets, at value	**$**	**70,997,538**
Net Assets Consist of		
Undistributed net investment income		1,395,283
Net unrealized appreciation (depreciation) on:		
Investments		(1,129,560)
Swap contracts		117,037
Futures		(68,959)
Foreign currency		150,285
Written options		(165,937)
Accumulated net realized gain (loss)		(146,603)
Paid-in-capital		70,845,992
Net assets, at value	**$**	**70,997,538**
Class A		
Net Asset Value, offering and redemption price per share ($70,997,538 ÷ 6,339,378 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.20**

* Represents collateral on securities loaned.

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

Statement of Operations

for the six months ended June 30, 2013 (Unaudited)

Investment Income	
Income:	
Interest (net of foreign taxes withheld of $282)	$ 1,761,886
Dividends	4,262
Income distributions — Central Cash Management Fund	3,355
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	2,359
Total income	1,771,862
Expenses:	
Management fee	202,215
Administration fee	36,766
Services to shareholders	435
Custodian fee	39,684
Audit and tax fees	32,640
Legal fees	5,489
Reports to shareholders	14,512
Trustees' fees and expenses	2,202
Other	28,121
Total expenses before expense reductions	362,064
Expense reductions	(93,210)
Total expenses after expense reductions	268,854
Net investment income (loss)	**1,503,008**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	340,287
Swap contracts	94,770
Futures	(431,068)
Written options	66,626
Foreign currency	(165,640)
	(95,025)
Change in net unrealized appreciation (depreciation) on:	
Investments	(4,018,924)
Swap contracts	(39,202)
Unfunded loan commitment	(118)
Futures	(36,998)
Written options	(306,116)
Foreign currency	145,058
	(4,256,300)
Net gain (loss)	**(4,351,325)**
Net increase (decrease) in net assets resulting from operations	**$ (2,848,317)**

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, 2013 (Unaudited)	Year Ended December 31, 2012
Operations:		
Net investment income	$ 1,503,008	$ 3,374,357
Net realized gain (loss)	(95,025)	2,896,387
Change in net unrealized appreciation (depreciation)	(4,256,300)	2,483,404
Net increase (decrease) in net assets resulting from operations	(2,848,317)	8,754,148
Distributions to shareholders from:		
Net investment income:		
Class A	(3,703,120)	(4,311,037)
Net realized gains:		
Class A	(2,113,421)	(143,246)
Total distributions	(5,816,541)	(4,454,283)
Fund share transactions:		
Class A		
Proceeds from shares sold	7,166,035	8,860,430
Reinvestment of distributions	5,816,541	4,454,283
Payments for shares redeemed	(6,820,159)	(13,217,365)
Net increase (decrease) in net assets from Class A share transactions	6,162,417	97,348
Increase (decrease) in net assets	(2,502,441)	4,397,213
Net assets at beginning of period	73,499,979	69,102,766
Net assets at end of period (including undistributed net investment income of $1,395,283 and $3,595,395, respectively)	**$ 70,997,538**	**$ 73,499,979**

Other Information		
Class A		
Shares outstanding at beginning of period	5,832,490	5,808,640
Shares sold	573,094	731,149
Shares issued to shareholders in reinvestment of distributions	491,677	381,360
Shares redeemed	(557,883)	(1,088,659)
Net increase (decrease) in Class A shares	506,888	23,850
Shares outstanding at end of period	**6,339,378**	**5,832,490**

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

Financial Highlights

Class A	Six Months Ended 6/30/13 (Unaudited)	2012	Years Ended December 31, 2011	2010	2009	2008
Selected Per Share Data						
Net asset value, beginning of period	**$12.60**	**$11.90**	**$11.96**	**$11.61**	**$10.03**	**$11.70**
Income (loss) from investment operations:						
Net investment income[a]	.25	.57	.63	.66	.63	.55
Net realized and unrealized gain (loss)	(.68)	.92	(.01)	.47	1.50	(1.38)
Total from investment operations	(.43)	1.49	.62	1.13	2.13	(.83)
Less distributions from:						
Net investment income	(.62)	(.76)	(.68)	(.78)	(.55)	(.69)
Net realized gains	(.35)	(.03)	—	—	—	(.15)
Total distributions	(.97)	(.79)	(.68)	(.78)	(.55)	(.84)
Net asset value, end of period	**$11.20**	**$12.60**	**$11.90**	**$11.96**	**$11.61**	**$10.03**
Total Return (%)[b]	(3.88)**	13.08	5.31	10.05	22.73	(7.75)
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	71	73	69	76	74	73
Ratio of expenses before expense reductions (%)	.98*	.99	.99	.95	.86	.89
Ratio of expenses after expense reductions (%)	.73*	.77	.79	.86	.80	.87
Ratio of net investment income (%)	4.09*	4.72	5.38	5.62	5.96	5.06
Portfolio turnover rate (%)	82**	164	144	167	370	234

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 (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, debt securities are valued at the most recent bid quotation or evaluated price and loan participations and assignments are valued at the mean of the most recent bid and ask quotations, 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 prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer with which the option was traded. Over-the-counter written or purchased options 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. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of June 30, 2013, the Fund had securities on loan with a gross value of $1,580,914. The value of the related collateral, $1,669,599, exceeded the value of the securities loaned at period end.

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 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 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, the Fund may be subject to taxes imposed by the governments of countries in which it invests and are generally based on income and/or capital gains earned or repatriated. 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. Tax liabilities realized as a result of security sales are reflected as a component of net realized gain/loss on investments.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2012 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 from net investment income of the Fund, if any, are 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, 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 based upon the relative net assets or other appropriate measures.

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, 2013, the Fund entered into interest rate swap transactions to gain exposure to different parts of the yield curve while managing overall duration. 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, 2013 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, the investment in interest rate swap contracts had a total notional amount of $4,500,000.

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. The Fund may enter into credit default swap contracts to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer or to hedge against the risk of a credit event on debt 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 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. For the six months ended June 30, 2013, the Fund entered into credit default swap contracts to gain exposure to the underlying issuer's credit quality characteristics.

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, 2013 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, the investment in credit default swap contracts sold had a total notional value generally indicative of a range from $415,000 to $2,195,000.

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, 2013, 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.

A summary of the open purchased option contracts as of June 30, 2013 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, 2013, the investment in written option contracts had a total value generally indicative of a range from approximately $260,000 to $561,000, and purchased option contracts had a total value generally indicative of a range from approximately $284,000 to $423,000.

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, 2013, the Fund entered into interest rate futures to gain exposure to different parts of the yield curve while managing overall duration 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. 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, 2013, 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, 2013 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $4,855,000 to $7,631,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $2,488,000 to $28,086,000.

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, 2013, 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, 2013, 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, 2013 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2013, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $6,896,000 to $19,799,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $2,431,000 to $14,678,000. 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 $4,795,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2013 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)	$ 423,123	$ —	$ 104,612	$ 50,283	$ 578,018
Credit Contracts (b)	—	—	29,197	—	29,197
Foreign Exchange Contracts (c)	—	505,946	—	—	505,946
	$ 423,123	**$ 505,946**	**$ 133,809**	**$ 50,283**	**$ 1,113,161**

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) Investments in securities, at value (includes purchased options) and unrealized appreciation on swap contracts, respectively

(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)	$ (560,519)	$ —	$ (16,772)	$ (119,242)	$ (696,533)
Foreign Exchange Contracts (c)	—	(360,817)	—	—	(360,817)
	$ (560,519)	**$ (360,817)**	**$ (16,772)**	**$ (119,242)**	**$ (1,057,350)**

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

(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.

(b) Options written, at value and unrealized depreciation on swap contracts, respectively

(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, 2013 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)	$ (37,156)	$ 66,626	$ —	$ 6,704	$ (431,068)	$ (394,894)
Credit Contracts (a)	—	—	—	88,066	—	88,066
Foreign Exchange Contracts (b)	—	—	(153,136)	—	—	(153,136)
	$ (37,156)	**$ 66,626**	**$ (153,136)**	**$ 94,770**	**$ (431,068)**	**$ (459,964)**

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)	$ 110,267	$ (306,116)	$ —	$ 8,353	$ (36,998)	$ (224,494)
Credit Contracts (a)	—	—	—	(47,555)	—	(47,555)
Foreign Exchange Contracts (b)	—	—	151,789	—	—	151,789
	$ 110,267	**$ (306,116)**	**$ 151,789**	**$ (39,202)**	**$ (36,998)**	**$ (120,260)**

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)

As of June 30, 2013, the Fund has transactions subject to enforceable master netting agreements. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by derivative type, including any collateral exposure, is included in the following tables:

Counterparty	Gross Amounts of Assets Presented in the Statement of Assets and Liabilities (a)	Financial Instruments and Derivatives Available for Offset	Collateral Received	Net Amount of Derivative Assets
Bank of America	$ 118,652	$ (62,856)	$ —	$ 55,796
Barclays Bank PLC	50,155	(50,155)	—	—
BNP Paribas	189,915	(113,732)	—	76,183
Citigroup, Inc.	142,559	(80,599)	—	61,960
Credit Suisse	5,602	—	—	5,602
JPMorgan Chase Securities, Inc.	238,772	(124,479)	—	114,293
Nomura International PLC	308,195	(115,493)	—	192,702
UBS AG	4,341	(4,341)	—	—
Exchange Traded Options and Futures (b)	54,970	—	—	54,970
	$ 1,113,161	**$ (551,655)**	**$ —**	**$ 561,506**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities (a)	Financial Instruments and Derivatives Available for Offset	Collateral Pledged	Net Amount of Derivative Liabilities
Bank of America	$ 62,856	$ (62,856)	$ —	$ —
Barclays Bank PLC	148,402	(50,155)	—	98,247
BNP Paribas	113,732	(113,732)	—	—
Citigroup, Inc.	80,599	(80,599)	—	—
JPMorgan Chase Securities, Inc.	124,479	(124,479)	—	—
Nomura International PLC	115,493	(115,493)	—	—
UBS AG	75,047	(4,341)	—	70,706
Exchange Traded Options and Futures (b)	336,742	—	—	336,742
	$ 1,057,350	**$ (551,655)**	**$ —**	**$ 505,695**

(a) Forward foreign currency exchange contracts, swap contracts and over-the-counter purchased options and written options are netted.

(b) Includes financial instruments (purchased options or futures) which are not subject to a master netting arrangement, or another similar arrangement.

C. Purchases and Sales of Securities

During the six months ended June 30, 2013, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $58,424,909 and $62,422,869, respectively. Purchases and sales of U.S. Treasury obligations aggregated $95,841 and $1,807,074, respectively.

For the six months ended June 30, 2013, transactions for written options on futures contracts and interest rate swap contracts were as follows:

	Contracts/ Contract Amount	Premiums
Outstanding, beginning of period	10,800,020	$ 416,526
Options written	60	50,475
Options closed	(4,000,000)	(64,650)
Options expired	(20)	(7,769)
Outstanding, end of period	**6,800,060**	**$ 394,582**

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") acted as an investment subadvisor to the Fund and managed the portion of assets allocated to the Fund's global tactical asset allocation ("GTAA") overlay strategy. QS Investors was paid by the Advisor for the services QS Investors provided to the Fund. Effective May 31, 2013, QS Investors no longer serves as subadvisor 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, 2013 through September 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 0.73%.

Accordingly, for the six months ended June 30, 2013, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $93,137, and the amount charged aggregated $109,078, which was equivalent to an annualized effective rate of 0.30% 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, 2013, the Administration Fee was $36,766, of which $5,965 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, 2013, the amounts charged to the Fund by DISC aggregated $73, 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, 2013, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $9,927, of which $9,390 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 Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and DWS Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and DWS Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that DWS Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in DWS Variable NAV Money Fund.

Security Lending Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the six months ended June 30, 2013, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $262.

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, 2013, two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 67% and 31%.

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, 2013.

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, 2013 to June 30, 2013).

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, 2013

Actual Fund Return	Class A
Beginning Account Value 1/1/13	$1,000.00
Ending Account Value 6/30/13	$ 961.20
Expenses Paid per $1,000*	$ 3.55

Hypothetical 5% Fund Return	Class A
Beginning Account Value 1/1/13	$1,000.00
Ending Account Value 6/30/13	$1,021.17
Expenses Paid per $1,000*	$ 3.66

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratio	Class A
DWS Variable Series II — DWS Unconstrained Income VIP	.73%

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.

For an analysis of the fees associated with an investment in the Fund or similar funds, please refer to http://apps.finra.org/fundanalyzer/1/fa.aspx.

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 17, 2012

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 2012, 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, 2010 and 2011.

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 103 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 "fallout" 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 considered how aggregated DWS Fund performance measures relative to appropriate peers had varied by asset class and over time.
- 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 Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2UI-3 (R-028389-2 8/13)

Semiannual Report to Shareholders June 30, 2013

Invesco V.I. Utilities Fund

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 most recent 12-month period ended June 30 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, 12/31/12 to 6/30/13, excluding variable product issuer charges. If variable product issuer charges were included, returns would be lower.

Series I Shares	8.21%
Series II Shares	8.08
S&P 500 Index▼ (Broad Market Index)	13.82
S&P 500 Utilities Sector Total Return Index▼ (Style-Specific Index)	9.93
Lipper VUF Utility Funds Classification Average■ (Peer Group)	9.60

▼Invesco, S&P-Dow Jones via FactSet Research Systems Inc.; ■Lipper Inc.

The **S&P 500® Index** is an unmanaged index considered representative of the US stock market.

The **S&P 500® Utilities Sector Total Return Index** is an unmanaged index considered representative of the utilities market.

The **Lipper VUF Utility Funds Classification Average** represents an average of all variable insurance underlying funds in the Lipper Utility Funds classification.

The Fund is not managed to track the performance of any particular index, including the index(es) described 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.

Average Annual Total Returns

As of 6/30/13

Series I Shares	
Inception (12/30/94)	7.11%
10 Years	9.73
5 Years	2.15
1 Year	7.98
Series II Shares	
10 Years	9.46%
5 Years	1.88
1 Year	7.68

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 shares. 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 1.03% and 1.28%, 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 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.

Schedule of Investments[a]

June 30, 2013
(Unaudited)

	Shares	Value
Common Stocks–95.16%		
Electric Utilities–51.54%		
American Electric Power Co., Inc.	76,377	$ 3,420,162
Duke Energy Corp.	42,209	2,849,108
Edison International	51,883	2,498,685
Entergy Corp.	30,660	2,136,389
Exelon Corp.	108,475	3,349,708
FirstEnergy Corp.	10,018	374,072
NextEra Energy, Inc.	9,968	812,193
Northeast Utilities	54,720	2,299,334
Pepco Holdings, Inc.	172,078	3,469,092
Pinnacle West Capital Corp.	26,689	1,480,439
Portland General Electric Co.	121,192	3,707,263
PPL Corp.	58,635	1,774,295
Southern Co. (The)	65,092	2,872,510
Xcel Energy, Inc.	108,924	3,086,906
		34,130,156
Gas Utilities–7.09%		
AGL Resources Inc.	48,831	2,092,897
Atmos Energy Corp.	20,530	842,962
UGI Corp.	45,021	1,760,771
		4,696,630
Independent Power Producers & Energy Traders–4.72%		
Calpine Corp.[b]	56,123	1,191,491
NRG Energy, Inc.	72,467	1,934,869
		3,126,360
Integrated Telecommunication Services–6.53%		
AT&T Inc.	29,361	$ 1,039,379
CenturyLink Inc.	37,172	1,314,030
Deutsche Telekom AG (Germany)	43,520	507,772
Verizon Communications Inc.	28,967	1,458,199
		4,319,380
Multi-Utilities–25.28%		
CMS Energy Corp.	44,866	1,219,009
Consolidated Edison, Inc.	20,420	1,190,690
Dominion Resources, Inc.	49,226	2,797,021
DTE Energy Co.	25,619	1,716,729
National Grid PLC (United Kingdom)	225,049	2,545,723
NiSource Inc.	27,525	788,316
Public Service Enterprise Group Inc.	52,901	1,727,747
Sempra Energy	29,931	2,447,159
TECO Energy, Inc.	134,338	2,309,270
		16,741,664
Total Common Stocks & Other Equity Interests (Cost $47,670,078)		63,014,190
Money Market Funds–4.38%		
Liquid Assets Portfolio-Institutional Class[c]	1,448,834	1,448,834
Premier Portfolio-Institutional Class[c]	1,448,835	1,448,835
Total Money Market Funds (Cost $2,897,669)		2,897,669
TOTAL INVESTMENTS–99.54% (Cost $50,567,747)		65,911,859
OTHER ASSETS LESS LIABILITIES–0.46%		305,092
NET ASSETS–100.00%		$66,216,951

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, 2013

Utilities	88.7%
Telecommunication Services	6.5
Money Market Funds Plus Other Assets Less Liabilities	4.8

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

Statement of Assets and Liabilities

June 30, 2013
(Unaudited)

Assets:	
Investments, at value (Cost $47,670,078)	$63,014,190
Investments in affiliated money market funds, at value and cost	2,897,669
Total investments, at value (Cost $50,567,747)	65,911,859
Receivable for:	
Investments sold	33,254
Fund shares sold	106,456
Dividends	264,665
Investment for trustee deferred compensation and retirement plans	50,747
Other assets	3,032
Total assets	66,370,013
Liabilities:	
Payable for:	
Fund shares reacquired	26,516
Accrued fees to affiliates	42,031
Accrued trustees' and officers' fees and benefits	518
Accrued other operating expenses	16,366
Trustee deferred compensation and retirement plans	67,631
Total liabilities	153,062
Net assets applicable to shares outstanding	$66,216,951
Net assets consist of:	
Shares of beneficial interest	$45,176,593
Undistributed net investment income	3,074,895
Undistributed net realized gain	2,623,001
Unrealized appreciation	15,342,462
	$66,216,951
Net Assets:	
Series I	$64,520,510
Series II	$ 1,696,441
Shares outstanding, $0.001 par value per share, with an unlimited number of shares authorized:	
Series I	3,680,103
Series II	97,534
Series I:	
Net asset value per share	$ 17.53
Series II:	
Net asset value per share	$ 17.39

Statement of Operations

For the six months ended June 30, 2013
(Unaudited)

Investment income:	
Dividends	$1,313,207
Dividends from affiliated money market funds	1,900
Total investment income	1,315,107
Expenses:	
Advisory fees	204,922
Administrative services fees	103,317
Custodian fees	2,910
Distribution fees — Series II	2,147
Transfer agent fees	10,486
Trustees' and officers' fees and benefits	13,998
Other	22,661
Total expenses	360,441
Less: Fees waived	(3,312)
Net expenses	357,129
Net investment income	957,978
Realized and unrealized gain (loss) from:	
Net realized gain from:	
Investment securities	1,366,576
Foreign currencies	4,850
	1,371,426
Change in net unrealized appreciation (depreciation) of:	
Investment securities	3,050,786
Foreign currencies	(4,024)
	3,046,762
Net realized and unrealized gain	4,418,188
Net increase in net assets resulting from operations	$5,376,166

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, 2013 and the year ended December 31, 2012
(Unaudited)

	June 30, 2013	December 31, 2012
Operations:		
Net investment income	$ 957,978	$ 2,152,558
Net realized gain	1,371,426	1,529,973
Change in net unrealized appreciation (depreciation)	3,046,762	(1,257,024)
Net increase in net assets resulting from operations	5,376,166	2,425,507
Distributions to shareholders from net investment income:		
Series I	–	(2,101,069)
Series II	–	(47,190)
Total distributions from net investment income	–	(2,148,259)
Distributions to shareholders from net realized gains:		
Series I	–	(2,398,617)
Series II	–	(59,040)
Total distributions from net realized gains	–	(2,457,657)
Share transactions-net:		
Series I	(4,882,728)	(4,662,802)
Series II	(71,294)	(195,495)
Net increase (decrease) in net assets resulting from share transactions	(4,954,022)	(4,858,297)
Net increase (decrease) in net assets	422,144	(7,038,706)
Net assets:		
Beginning of period	65,794,807	72,833,513
End of period (includes undistributed net investment income of $3,074,895 and $2,116,917, respectively)	$66,216,951	$65,794,807

Notes to Financial Statements

June 30, 2013
(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-four 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 (for unlisted equities), yield (for debt obligations), quality, type of issue, coupon rate (for debt obligations), maturity (for debt obligations), individual trading characteristics and other market data. Debt obligations are subject to interest rate and credit risks. In addition, all debt obligations involve some risk of default with respect to interest and/or principal payments.

Foreign securities' (including foreign exchange contracts) prices 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 the Adviser determines 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 trades is not the current value as of the close of the NYSE. Foreign securities' prices 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 became 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 of 1986, as amended (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. 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.

J. 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.

K. 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.

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).

The Adviser has contractually agreed, through at least June 30, 2014, 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. 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 Trustees and Invesco mutually agree to amend or continue the fee waiver agreement, it will terminate on June 30, 2014. The Adviser did not waive fees and/or reimburse expenses during the period under this expense limitation.

Further, the Adviser has contractually agreed, through at least June 30, 2014, 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, 2013, the Adviser waived advisory fees of $3,312.

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, 2013, Invesco was paid $24,795 for accounting and fund administrative services and reimbursed $78,522 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, 2013, 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, 2013, expenses incurred under the Plan are detailed in the Statement of Operations as *Distribution fees*.

For the six months ended June 30, 2013, the Fund incurred $134 in brokerage commissions with Invesco Capital Markets, Inc., an affiliate of the Adviser and IDI, for portfolio transactions executed on behalf of the Fund.

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, 2013. 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	$63,366,136	$2,545,723	$–	$65,911,859

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 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, 2012.

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, 2013 was $3,265,180 and $6,928,831, 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	$16,371,147
Aggregate unrealized (depreciation) of investment securities	(1,276,509)
Net unrealized appreciation of investment securities	$15,094,638

Cost of investments for tax purposes is $50,817,221.

NOTE 8—Share Information

	Summary of Share Activity			
	Six months ended June 30, 2013[a]		Year ended December 31, 2012	
	Shares	Amount	Shares	Amount
Sold:				
Series I	228,422	$ 3,997,478	613,174	$ 10,279,764
Series II	3,305	57,270	23,507	400,727
Issued as reinvestment of dividends:				
Series I	–	–	273,870	4,499,686
Series II	–	–	6,506	106,230
Reacquired:				
Series I	(508,512)	(8,880,206)	(1,166,463)	(19,442,252)
Series II	(7,468)	(128,564)	(41,247)	(702,452)
Net increase (decrease) in share activity	(284,253)	$(4,954,022)	(290,653)	$ (4,858,297)

[a] There are entities that are record owners of more than 5% of the outstanding shares of the Fund and in the aggregate own 52% 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 (000's 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 06/30/13	$16.20	$0.24	$ 1.09	$ 1.33	$ –	$ –	$ –	$17.53	8.21%	$64,521	1.04%[(d)]	1.05%[(d)]	2.81%[(d)]	5%
Year ended 12/31/12	16.74	0.52	0.10	0.62	(0.54)	(0.62)	(1.16)	16.20	3.61	64,158	0.99	1.03	3.10	3
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
Series II														
Six months ended 06/30/13	16.09	0.22	1.08	1.30	–	–	–	17.39	8.08	1,696	1.29[(d)]	1.30[(d)]	2.56[(d)]	5
Year ended 12/31/12	16.63	0.47	0.10	0.57	(0.49)	(0.62)	(1.11)	16.09	3.34	1,637	1.24	1.28	2.85	3
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

[(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 omitted) of $67,142 and $1,732 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, 2013 through June 30, 2013.

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 (01/01/13)	Ending Account Value (06/30/13)[1]	Expenses Paid During Period[2]	Ending Account Value (06/30/13)	Expenses Paid During Period[2]	Annualized Expense Ratio
Series I	$1,000.00	$1,082.10	$5.37	$1,019.64	$5.21	1.04%
Series II	1,000.00	1,080.80	6.66	1,018.40	6.46	1.29

[1] The actual ending account value is based on the actual total return of the Fund for the period January 1, 2013 through June 30, 2013, 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 181/365 to reflect the most recent fiscal half year.

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 Invesco V.I. Utilities Fund's (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 17-19, 2013, the Board as a whole, and the disinterested or "independent" Trustees, who comprise over 75% 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, 2013. The Board determined that continuation of 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 payable 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 funds advised by Invesco Advisers (the Invesco Funds). The Sub-Committees meet throughout the year to review the performance of their assigned Invesco 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 Lipper Inc. (Lipper), an independent provider of investment company data. 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 separate sessions with the Senior Officer and with independent legal counsel.

In evaluating the fairness and reasonableness of compensation under 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 fee rates for the Invesco Funds are, in many cases, the result of years of review and negotiation between the Trustees and Invesco Advisers as well as advisory fees previously approved by different predecessor boards. 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. The Trustees' review and conclusions are based on the comprehensive consideration of all information presented to them and are not the result of any single determinative factor. Moreover, 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 19, 2013, 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' 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 benefits of reapproving an existing relationship and the greater uncertainty that may be associated with entering into a new relationship. The Board also considered non-advisory 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 that may be 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 may invest, make recommendations regarding securities and assist with security trades. 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 that may be 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 fifth quintile of the Lipper performance universe for the one and five year periods and the fourth quintile for the three year period (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 below the performance of the Index for the one, 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

The Board compared the Fund's contractual management fee rate to the contractual management fee rates of funds in the Fund's Lipper expense group at a common asset level. The Board noted that the contractual management fee rate for Series I shares of the Fund was below the median contractual management fee rate of funds in the expense group. The Board noted that the term "contractual management fee" may include both advisory and certain administrative services fees and that Invesco Advisers does not charge the Invesco Funds for the administrative services included in the term as defined by Lipper. The Board also reviewed the methodology used by Lipper in providing expense group information, which includes using each fund's contractual management fee schedule (including any applicable breakpoints) as reported in the most recent prospectus or statement of additional information for each fund in the expense group.

The Board also compared the Fund's effective advisory fee rate (the advisory fee rate after advisory fee waivers and before other expense limitations/waivers) to the effective 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 advisory fee rate was below the effective advisory rate of the other mutual fund with investment strategies comparable to those of the Fund.

Other than the mutual fund described above, the Board noted that Invesco Advisers and its affiliates do not advise other funds or client accounts with investment strategies comparable to those of the Fund.

The Board also considered the services that may be provided by the Affiliated Sub-Advisers pursuant to the sub-advisory contracts, as well as the fees payable by Invesco Advisers to the Affiliated Sub-Advisers pursuant to the sub-advisory contracts. The Board also noted that the sub-advisory fees are not paid directly by the Fund, but rather, are payable by Invesco Advisers to the Affiliated Sub-Advisers.

Based upon the information and considerations described above, the Board concluded that the compensation payable to Invesco Advisers and the Affiliated Sub-Advisers is 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.

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, 2012. The Board received information from Invesco Advisers about the methodology used to prepare the profitability information. The Board considered the profitability of Invesco Advisers in 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 transfer agency and distribution services to the Fund. The Board considered comparative information regarding fees charged for these services, including information provided by Lipper and other independent sources. 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 that the research received may be used with other clients of Invesco Advisers and 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 to among other things, control information leakage, and were advised that such trades are executed in compliance with rules under the Investment Company Act of 1940, as amended.

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SEMIANNUAL REPORT

June 30, 2013

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 877.33JANUS (52687) or download the file from janus.com/variable-insurance. Read it carefully before you invest or send money.

Janus Aspen Forty Portfolio (unaudited)

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

Doug Rao
portfolio manager

Portfolio Manager Change

During the period, Doug Rao was appointed portfolio manager of Janus Aspen Forty Portfolio. He replaces Ron Sachs, who left the firm. Rao has 13 years of financial industry experience, including experience managing concentrated portfolios. Rao was employed for seven years by Marsico Capital Management, where he was portfolio manager of the Marsico Flexible Capital Fund and co-portfolio manager of both the Marsico Focus Fund and the Marsico Growth Fund. These three funds were all large-cap growth funds, and the Marsico Focus Fund was also a concentrated fund. Prior to Marsico, Rao was a senior equity analyst at TCW. Rao joined Janus from Chautauqua Capital Management, where he was a partner and portfolio manager. He received a bachelor’s degree from the University of Virginia and an MBA from the University of California, Los Angeles.

Performance Overview

For the six-month period ended June 30, 2013, the Portfolio’s Institutional Shares and Service Shares returned 7.77% and 7.64%, respectively, versus a return of 11.80% for the Portfolio’s primary benchmark, the Russell 1000 Growth Index. The Portfolio’s secondary benchmark, the S&P 500 Index, returned 13.82% for the period. Please see the Derivative Instruments section in the Notes to Financial Statements for a discussion of derivatives used by the Portfolio.

Market Environment

U.S. equity markets posted strong results during the period as confidence in the U.S. economy increased, due to a stronger housing market and improving jobs data. While there are clear indicators the U.S. economy has turned the corner from the financial crisis, economic improvement has also stoked concerns the Federal Reserve (Fed) might ease off its loose monetary policies that helped fuel a broad market rally. These fears led to increased volatility toward the end of the period.

Overview

The Portfolio underperformed its primary benchmark, the Russell 1000 Growth Index, and also its secondary benchmark, the S&P 500 Index, during the six-month period. However, much of the underperformance came in the first quarter of the year, and we were pleased to see the Portfolio outperform its primary benchmark during the second quarter. As we transition the management of the Portfolio, we expect slight changes to how the Portfolio is constructed, which are discussed in the Outlook section later, but our investment philosophy remains consistent. We will continue to identify wide-moat businesses with an ability to gain market share in large, addressable markets. We believe a highly concentrated portfolio of companies with these characteristics should create an opportunity to generate risk-adjusted outperformance over the long term. While the Portfolio underperformed its benchmark during the period, we were pleased to see a number of the companies we own continue to work hard to widen their competitive moats and find opportunities to grow in excess of the market.

Apple was our largest detractor during the period. In an effort to more accurately reflect the long-term competitive advantages of the company, we trimmed the position. However, at current valuation levels we think the market is overlooking some of the positive attributes of the company. Apple is undoubtedly being challenged by Google, a new holding in the Portfolio, to win market share among first-time and lower-end smartphone users. Many of these consumers have shown a preference for low-cost devices that use Google’s Android operating system. However, Apple still has a very sticky customer base of high-end consumers, and we believe there is optionality from a product upgrade cycle or potential innovation.

FANUC was another large detractor. The company has been affected by the economic slowdown in China, and we trimmed the position size to reflect those concerns. However, we think that over the long term the company will benefit from higher penetration of computer numeric

Janus Aspen Forty Portfolio (unaudited)

control (CNC) systems in machine tools, and from increased automation in China, as wage inflation becomes a bigger concern for the country's businesses.

Another large detractor was Turquoise Hill Resources. The company owns a Mongolian mine that has one of the largest high-grade copper deposits in the world. However, we have been reducing the position size of this holding due to concerns about geopolitical risk in Mongolia.

While those companies were large detractors, we were pleased by the performance of a number of other companies in the Portfolio. Two biopharmaceutical companies, Celgene and Vertex, were among our top contributors during the period. We have invested in biotech and pharmaceutical companies that have been able to translate gains in human genetic research over the last decade into innovative drugs that address high unmet medical needs and significantly improve patient outcomes. Both companies are good examples of the potential that is being unlocked for some of these innovative companies.

Celgene is developing leading therapies to treat serious illnesses such as multiple myeloma, psoriatic arthritis, and pancreatic cancer. Our research team has done a lot of work surveying doctors and specialists to understand the growth potential of each of Celgene's drug franchises, which gave us high conviction that the company had multiple long-duration growth opportunities. The stock has appreciated in recent months as management has explained to the market that they expect multiyear growth to be driven by four different drug franchises, and that Celgene is much more than a one-product company. Testing data for some of these drugs continues to be encouraging.

Vertex, meanwhile, has developed breakthrough therapy to treat cystic fibrosis. Vertex's drugs for the disease are the first to address the underlying cause of the disease, as opposed to just treating its symptoms. The stock was up 90% over the last six months, as new data points to the drugs' ability to treat a wider subset of patients suffering from the disease.

Outside of the health care sector, another top contributor for the Portfolio was Twenty-First Century Fox (formerly News Corp.). We think there is high demand for Fox programming, which has helped the network grow at one of the fastest rates in the media space. In our view, Fox is one of a limited number of companies that has demonstrated an ability to repeatedly launch and market hit television content. We think the value of that content will increase going forward as it spreads internationally and new digital platforms offer expanded viewing opportunities.

Outlook

The U.S. economy continues to grow at a slow pace, but we believe this is a favorable environment for concentrated growth portfolios. We believe companies with competitive advantages and secular tailwinds that allow them to grow even in a slow-growth economic environment should be more appreciated by the market when growth is harder to come by for many companies.

While our focus remains on finding wide-moat businesses with clear competitive advantages, we do expect to make a few changes in how the Portfolio is constructed going forward. We still believe concentrated portfolios represent a strong way to generate alpha (risk adjusted outperformance), but we are reducing the sizes of our largest positions in the Portfolio. Ideally, we do not expect any of our holdings to comprise more than 8% of the Portfolio. By distributing position sizes more evenly, we believe it creates a more meaningful opportunity for all the positions in the Portfolio to contribute to performance.

Another change is that we expect to identify more emerging large-cap companies with innovative products or services that could be disruptive to the current competitive landscape in which they do business. If we can identify these companies earlier than the rest of the market, they can potentially create some of the greatest growth opportunities.

Thank you for your investment in Janus Aspen Forty Portfolio.

(unaudited)

Janus Aspen Forty Portfolio At A Glance

5 Top Performers – Holdings

	Contribution
Celgene Corp.	3.21%
News Corp. – Class A	1.83%
Vertex Pharmaceuticals, Inc.	1.22%
Express Scripts Holding Co.	0.88%
United Parcel Service, Inc. – Class B	0.61%

5 Bottom Performers – Holdings

	Contribution
Apple, Inc.	−2.42%
FANUC Corp.	−1.04%
Turquoise Hill Resources, Ltd. (U.S. Shares)	−0.29%
EMC Corp.	−0.24%
VMware, Inc. – Class A	−0.21%

5 Top Performers – Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000® Growth Index Weighting
Health Care	2.63%	20.67%	12.74%
Financials	0.23%	5.07%	4.84%
Consumer Discretionary	0.03%	22.09%	16.98%
Utilities	0.01%	0.00%	0.20%
Energy	0.00%	0.00%	4.15%

5 Bottom Performers – Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000® Growth Index Weighting
Information Technology	−2.37%	29.12%	29.16%
Industrials	−2.27%	12.60%	12.91%
Telecommunication Services	−0.75%	4.31%	2.30%
Consumer Staples	−0.56%	1.20%	12.78%
Materials	−0.40%	1.29%	3.94%

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 codes, which are the exclusive property and a service mark of MSCI Inc. and Standard & Poor's.

Janus Aspen Forty Portfolio (unaudited)

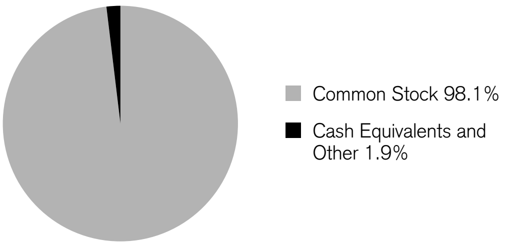
5 Largest Equity Holdings – (% of Net Assets)

As of June 30, 2013

News Corp. – Class A Multimedia	8.1%
Express Scripts Holding Co. Pharmacy Services	6.8%
Celgene Corp. Medical – Biomedical and Genetic	5.5%
Apple, Inc. Computers	4.6%
Google, Inc. – Class A Web Portals/Internet Service Providers	4.1%
	29.1%

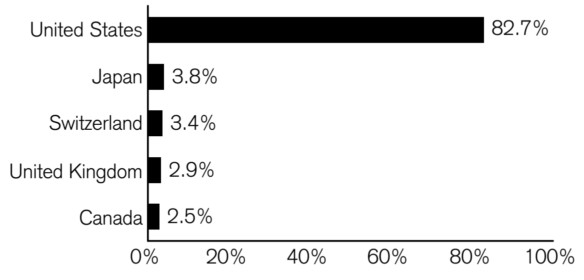
Asset Allocation – (% of Net Assets)

As of June 30, 2013

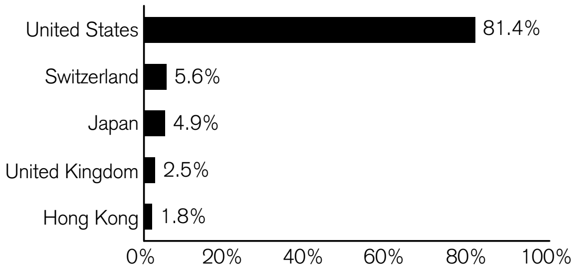


Top Country Allocations – Long Positions (% of Investment Securities)

As of June 30, 2013

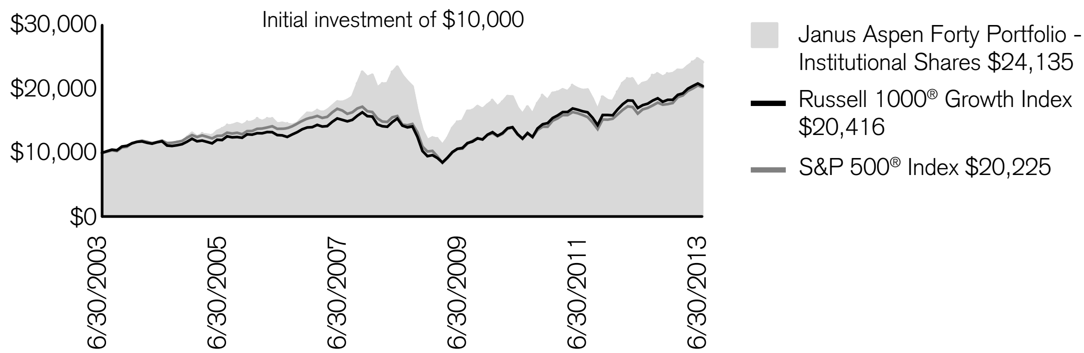


As of December 31, 2012



(unaudited)

Performance



Average Annual Total Return – for the periods ended June 30, 2013 | **Expense Ratios –** per the May 1, 2013 prospectuses

	Fiscal Year-to-date	One Year	Five Year	Ten Year	Since Inception*	Total Annual Fund Operating Expenses
Janus Aspen Forty Portfolio – Institutional Shares	7.77%	15.65%	1.82%	9.21%	10.10%	0.55%
Janus Aspen Forty Portfolio – Service Shares	7.64%	15.36%	1.56%	8.94%	9.79%	0.80%
Russell 1000® Growth Index	11.80%	17.07%	7.47%	7.40%	5.33%	
S&P 500® Index	13.82%	20.60%	7.01%	7.30%	6.34%	
Morningstar Quartile – Institutional Shares	–	3rd	4th	1st	1st	
Morningstar Ranking – Institutional Shares based on total returns for Large Growth Funds	–	1,146/1,764	1,477/1,568	113/1,315	23/817	

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 prospectuses or Statement of Additional Information for more details.

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 the Portfolio's prospectuses 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.

See important disclosures on the next page.

Janus Aspen Forty Portfolio (unaudited)

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.

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

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

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

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 "Useful Information About Your Portfolio Report."

Effective June 3, 2013, Douglas Rao is Portfolio Manager of the Portfolio.

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

Expense Examples

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

Actual Expenses

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

Hypothetical Example for Comparison Purposes

The information in the table under the heading "Hypothetical (5% return before expenses)" provides information about hypothetical account values and hypothetical expenses based upon the Portfolio's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Portfolio and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. Additionally, for an analysis of the fees associated with an investment in either share class or other similar funds, please visit www.finra.org/fundanalyzer.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs. These fees are fully described in the Portfolio's prospectuses. Therefore, the hypothetical examples are useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transaction costs were included, your costs would have been higher.

	Actual			Hypothetical (5% return before expenses)			
	Beginning Account Value (1/1/13)	Ending Account Value (6/30/13)	Expenses Paid During Period (1/1/13 - 6/30/13)†	Beginning Account Value (1/1/13)	Ending Account Value (6/30/13)	Expenses Paid During Period (1/1/13 - 6/30/13)†	Net Annualized Expense Ratio (1/1/13 - 6/30/13)
Institutional Shares	$1,000.00	$1,077.70	$2.78	$1,000.00	$1,022.12	$2.71	0.54%
Service Shares	$1,000.00	$1,076.40	$4.07	$1,000.00	$1,020.88	$3.96	0.79%

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

Janus Aspen Forty Portfolio

Schedule of Investments (unaudited)

As of June 30, 2013

Shares		Value
Common Stock – 98.1%		
Agricultural Chemicals – 2.0%		
191,732	Monsanto Co.	$ 18,943,122
Apparel Manufacturers – 1.2%		
1,241,700	Prada SpA	11,271,008
Athletic Footwear – 2.1%		
319,399	NIKE, Inc. – Class B	20,339,328
Automotive – Truck Parts and Equipment – Original – 1.8%		
339,212	Delphi Automotive PLC	17,194,656
Beverages – Wine and Spirits – 1.5%		
128,848	Pernod-Ricard S.A.	14,286,073
Casino Hotels – 2.7%		
1,785,756	MGM Resorts International*	26,393,474
Commercial Services – Finance – 2.1%		
35,229	MasterCard, Inc. – Class A	20,239,060
Computers – 4.6%		
111,599	Apple, Inc.	44,202,132
Computers – Memory Devices – 3.5%		
1,424,576	EMC Corp.	33,648,485
Dialysis Centers – 1.9%		
155,011	DaVita HealthCare Partners, Inc.*	18,725,329
E-Commerce/Products – 4.1%		
37,546	Amazon.com, Inc.*	10,426,149
566,073	eBay, Inc.*	29,277,295
		39,703,444
E-Commerce/Services – 2.1%		
24,113	priceline.com, Inc.*	19,944,586
Electronic Components – Miscellaneous – 3.0%		
636,719	TE Connectivity, Ltd. (U.S. Shares)	28,996,183
Electronic Connectors – 1.6%		
202,012	Amphenol Corp. – Class A	15,744,815
Industrial Automation and Robotics – 3.8%		
249,800	FANUC Corp.**	36,225,534
Life and Health Insurance – 4.9%		
4,407,400	AIA Group, Ltd.	18,667,718
1,723,685	Prudential PLC	28,178,065
		46,845,783
Medical – Biomedical and Genetic – 9.5%		
456,552	Celgene Corp.*	53,375,494
467,697	Gilead Sciences, Inc.*	23,950,764
174,201	Vertex Pharmaceuticals, Inc.*	13,913,434
		91,239,692
Medical – Drugs – 5.7%		
228,883	Valeant Pharmaceuticals International, Inc. (U.S. Shares)	19,702,249
1,132,145	Zoetis, Inc.	34,971,959
		54,674,208
Medical Instruments – 2.4%		
45,301	Intuitive Surgical, Inc.*	22,948,581
Metal – Diversified – 0.4%		
701,764	Turquoise Hill Resources, Ltd. (U.S. Shares)*	4,161,461
Metal Processors and Fabricators – 3.3%		
139,614	Precision Castparts Corp.	31,554,160
Multimedia – 8.1%		
2,391,685	News Corp. – Class A	$ 77,968,931
Pharmacy Services – 6.8%		
1,056,734	Express Scripts Holding Co.*	65,189,920
Retail – Apparel and Shoe – 2.9%		
575,178	Limited Brands, Inc.	28,327,516
Retail – Jewelry – 3.4%		
373,333	Cie Financiere Richemont S.A.	33,031,846
Retail – Major Department Stores – 2.1%		
396,395	TJX Cos., Inc.	19,843,534
Software Tools – 1.3%		
187,835	VMware, Inc. – Class A*	12,583,067
Super-Regional Banks – 3.1%		
838,455	U.S. Bancorp	30,310,148
Web Portals/Internet Service Providers – 4.1%		
45,274	Google, Inc. – Class A*	39,857,871
Wireless Equipment – 2.1%		
286,002	Crown Castle International Corp.*	20,703,685
Total Common Stock (cost $656,734,612)		945,097,632
Money Market – 1.3%		
12,886,555	Janus Cash Liquidity Fund LLC, 0%£ (cost $12,886,555)	12,886,555
Total Investments (total cost $669,621,167) – 99.4%		957,984,187
Cash, Receivables and Other Assets, net of Liabilities – 0.6%		6,253,367
Net Assets – 100%		$964,237,554

Summary of Investments by Country – (Long Positions)

Country	*Value*	*% of Investment Securities*
Canada	$ 23,863,710	2.5%
France	14,286,073	1.5%
Hong Kong	18,667,718	2.0%
Italy	11,271,008	1.2%
Japan	36,225,534	3.8%
Switzerland	33,031,846	3.4%
United Kingdom	28,178,065	2.9%
United States††	792,460,233	82.7%
Total	$957,984,187	100.0%

†† Includes Cash Equivalents of 1.3%.

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

Janus Aspen Forty Portfolio

Schedule of Investments (unaudited)

As of June 30, 2013

Forward Currency Contracts, Open

Counterparty/Currency and Settlement Date	*Currency Units Sold*	*Currency Value U.S. $*	*Unrealized Appreciation*
Credit Suisse Securities (USA) LLC:			
Japanese Yen 8/8/13	400,000,000	$ 4,034,583	$ 36,083
HSBC Securities (USA), Inc.:			
Japanese Yen 8/15/13	280,000,000	2,824,311	28,785
JPMorgan Chase & Co.:			
Japanese Yen 8/2/13	230,000,000	2,319,813	34,706
RBC Capital Markets Corp.:			
Japanese Yen 8/22/13	887,000,000	8,947,341	11,622
Total		$18,126,048	$111,196

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

Notes to Schedule of Investments and Other Information (unaudited)

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.
S.A.	Sociedad Anonima: Spanish term for publicly-traded company.
SpA	Societa per Anzioni: Italian term for Public Limited Company.
PLC	Public Limited Company
U.S. Shares	Securities of foreign companies trading on an American Stock Exchange.

* Non-income producing security.

** A portion of this security has been segregated to cover margin or segregation requirements on open futures contracts, forward currency contracts, options contracts, short sales, swap agreements, and/or securities with extended settlement dates, the value of which, as of June 30, 2013, is noted below.

Portfolio	*Aggregate Value*
Janus Aspen Forty Portfolio	$36,225,534

£ The Portfolio may invest in certain securities that are considered affiliated companies. As defined by the Investment Company Act of 1940, as amended, an affiliated company is one in which the Portfolio owns 5% or more of the outstanding voting securities, or a company which is under common ownership or control. Based on the Portfolio's relative ownership, the following securities were considered affiliated companies for all or some portion of the period ended June 30, 2013. Except for the value at period end, all other information in the table is for the period ended June 30, 2013.

	Purchases		*Sales*		*Realized*	*Dividend*	*Value*
	Shares	*Cost*	*Shares*	*Cost*	*Gain/(Loss)*	*Income*	*at 6/30/13*
Janus Aspen Forty Portfolio							
Janus Cash Liquidity Fund LLC	166,480,915	$166,480,915	(178,077,163)	$(178,077,163)	$–	$22,032	$12,886,555

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, 2013. See Notes to Financial Statements for more information.

Valuation Inputs Summary (as of June 30, 2013)

	Level 1 – Quoted Prices	***Level 2 – Other Significant Observable Inputs***	***Level 3 – Significant Unobservable Inputs***
Investments in Securities:			
Janus Aspen Forty Portfolio			
Common Stock	$945,097,632	$ –	$–
Money Market	–	12,886,555	–
Total Investments in Securities	$945,097,632	$12,886,555	$–
Other Financial Instruments(a)	$ –	$ 111,196	$–

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

Statement of Assets and Liabilities

As of June 30, 2013 (unaudited) (all numbers in thousands except net asset value per share)	Janus Aspen Forty Portfolio
Assets:	
Investments at cost	$669,621
Unaffiliated investments at value	$945,098
Affiliated investments at value	12,886
Cash	28
Cash denominated in foreign currency	191
Receivables:	
Investments sold	7,733
Closed foreign currency contracts	388
Portfolio shares sold	252
Dividends	450
Foreign dividend tax reclaim	45
Non-interested Trustees' deferred compensation	17
Other assets	2
Forward currency contracts	111
Total Assets	967,201
Liabilities:	
Payables:	
Investments purchased	1,517
Portfolio shares repurchased	690
Dividends	–
Advisory fees	388
Fund administration fees	8
Internal servicing cost	1
Distribution fees and shareholder servicing fees	96
Non-interested Trustees' fees and expenses	7
Non-interested Trustees' deferred compensation fees	17
Accrued expenses and other payables	239
Total Liabilities	2,963
Net Assets	$964,238
Net Assets Consist of:	
Capital (par value and paid-in surplus)*	$630,421
Undistributed net investment income*	1,209
Undistributed net realized gain from investment and foreign currency transactions*	44,142
Unrealized net appreciation of investments, foreign currency translations and non-interested Trustees' deferred compensation	288,466
Total Net Assets	$964,238
Net Assets - Institutional Shares	$498,661
Shares Outstanding, $0.001 Par Value (unlimited shares authorized)	11,375
Net Asset Value Per Share	$ 43.84
Net Assets - Service Shares	$465,577
Shares Outstanding, $0.001 Par Value (unlimited shares authorized)	10,800
Net Asset Value Per Share	$ 43.11

* See Note 5 in Notes to Financial Statements.

See Notes to Financial Statements.

Statement of Operations

For the period ended June 30, 2013 (unaudited) *(all numbers in thousands)*	*Janus Aspen Forty Portfolio*
Investment Income:	
Dividends	$ 4,972
Dividends from affiliates	22
Foreign tax withheld	(37)
Total Investment Income	4,957
Expenses:	
Advisory fees	2,356
Internal servicing expense - Institutional Shares	3
Internal servicing expense - Service Shares	3
Shareholder reports expense	127
Transfer agent fees and expenses	1
Registration fees	10
Custodian fees	12
Professional fees	15
Non-interested Trustees' fees and expenses	12
Fund administration fees	48
Distribution fees and shareholder servicing fees - Service Shares	593
Other expenses	29
Total Expenses	3,209
Net Expenses after Waivers and Expense Offsets	3,209
Net Investment Income	1,748
Net Realized and Unrealized Gain/(Loss) on Investments:	
Net realized gain from investment and foreign currency transactions	110,201
Change in unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation	(39,367)
Net Gain on Investments	70,834
Net Increase in Net Assets Resulting from Operations	$ 72,582

See Notes to Financial Statements.

Statements of Changes in Net Assets

For the period ended June 30 (unaudited) and the year ended December 31 (all numbers in thousands)	*Janus Aspen Forty Portfolio* 2013	2012
Operations:		
Net investment income	$ 1,748	$ 9,061
Net realized gain from investment and foreign currency transactions	110,201	7,888
Change in unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation	(39,367)	188,516
Net Increase in Net Assets Resulting from Operations	72,582	205,465
Dividends and Distributions to Shareholders:		
Net Investment Income*		
Institutional Shares	(3,266)	(3,542)
Service Shares	(2,634)	(2,681)
Net Realized Gain/(Loss) from Investment Transactions*		
Institutional Shares	–	–
Service Shares	–	–
Net Decrease from Dividends and Distributions	(5,900)	(6,223)
Capital Share Transactions:		
Shares Sold		
Institutional Shares	26,534	66,699
Service Shares	15,346	64,127
Reinvested Dividends and Distributions		
Institutional Shares	3,266	3,542
Service Shares	2,634	2,681
Shares Repurchased		
Institutional Shares	(53,497)	(146,389)
Service Shares	(56,103)	(107,393)
Net Decrease from Capital Share Transactions	(61,820)	(116,733)
Net Increase in Net Assets	4,862	82,509
Net Assets:		
Beginning of period	959,376	876,867
End of period	$964,238	$ 959,376
Undistributed Net Investment Income*	$ 1,209	$ 5,361

* See Note 5 in Notes to Financial Statements.

See Notes to Financial Statements.

Financial Highlights

Institutional Shares

For a share outstanding during the period ended June 30, 2013 (unaudited) and each year ended December 31	*Janus Aspen Forty Portfolio* *2013*	*2012*	*2011*	*2010*	*2009*	*2008*
Net Asset Value, Beginning of Period	$40.95	$33.22	$35.74	$33.61	$22.97	$41.18
Income from Investment Operations:						
Net investment income	0.13	0.47	0.23	0.19	0.08	0.04
Net gain/(loss) on investments (both realized and unrealized)	3.05	7.54	(2.62)	2.06	10.57	(18.20)
Total from Investment Operations	3.18	8.01	(2.39)	2.25	10.65	(18.16)
Less Distributions and Other:						
Dividends (from net investment income)*	(0.29)	(0.28)	(0.13)	(0.12)	–	(0.03)
Distributions (from capital gains)*	–	–	–	–	–	–
Return of capital	N/A	N/A	N/A	N/A	(0.01)	(0.02)
Total Distributions and Other	(0.29)	(0.28)	(0.13)	(0.12)	(0.01)	(0.05)
Net Asset Value, End of Period	$43.84	$40.95	$33.22	$35.74	$33.61	$22.97
Total Return**	7.77%	24.16%	(6.69)%	6.72%	46.38%	(44.15)%
Net Assets, End of Period (in thousands)	$498,661	$488,374	$459,459	$567,322	$582,511	$399,087
Average Net Assets for the Period (in thousands)	$501,167	$512,799	$518,818	$553,994	$482,572	$560,324
Ratio of Gross Expenses (Absent the Waiver of Certain Fees and Expense Offsets) to Average Net Assets***	0.54%	0.55%	0.70%	0.67%	0.68%	0.67%
Ratio of Net Expenses (After Waivers and Expense Offsets) to Average Net Assets***	0.54%	0.55%	0.70%	0.67%	0.68%	0.67%
Ratio of Net Investment Income to Average Net Assets***	0.48%	1.03%	0.56%	0.52%	0.05%	0.05%(1)
Portfolio Turnover Rate	28%	10%	46%	36%	32%	61%

Service Shares

For a share outstanding during the period ended June 30, 2013 (unaudited) and each year ended December 31	*Janus Aspen Forty Portfolio* *2013*	*2012*	*2011*	*2010*	*2009*	*2008*
Net Asset Value, Beginning of Period	$40.28	$32.72	$35.24	$33.17	$22.73	$40.80
Income from Investment Operations:						
Net investment income/(loss)	0.05	0.31	0.09	0.07	–	(0.03)
Net gain/(loss) on investments (both realized and unrealized)	3.02	7.47	(2.52)	2.08	10.44	(18.04)
Total from Investment Operations	3.07	7.78	(2.43)	2.15	10.44	(18.07)
Less Distributions and Other:						
Dividends (from net investment income)*	(0.24)	(0.22)	(0.09)	(0.08)	–	–
Distributions (from capital gains)*	–	–	–	–	–	–
Return of capital	N/A	N/A	N/A	N/A	–(2)	–(2)
Total Distributions and Other	(0.24)	(0.22)	(0.09)	(0.08)	–	–
Net Asset Value, End of Period	$43.11	$40.28	$32.72	$35.24	$33.17	$22.73
Total Return**	7.64%	23.82%	(6.91)%	6.48%	45.95%	(44.28)%
Net Assets, End of Period (in thousands)	$465,577	$471,002	$417,408	$532,645	$639,979	$428,109
Average Net Assets for the Period (in thousands)	$478,252	$468,967	$475,743	$567,062	$520,592	$653,396
Ratio of Gross Expenses (Absent the Waiver of Certain Fees and Expense Offsets) to Average Net Assets***	0.79%	0.80%	0.95%	0.92%	0.93%	0.92%
Ratio of Net Expenses (After Waivers and Expense Offsets) to Average Net Assets***	0.79%	0.80%	0.95%	0.92%	0.93%	0.92%
Ratio of Net Investment Income/(Loss) to Average Net Assets***	0.23%	0.81%	0.31%	0.25%	(0.22)%	(0.18)%(1)
Portfolio Turnover Rate	28%	10%	46%	36%	32%	61%

* 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) 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.
(2) Return of capital aggregated less than $0.01 on a per share basis.

See Notes to Financial Statements.

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 twelve 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 as well as certain 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 uses systematic fair valuation models provided by independent third parties to value international equity securities in order to adjust for stale pricing, which may occur between the close of certain foreign exchanges and the close of the NYSE. 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).

Federal Income Taxes

The Portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income. Management has analyzed the Portfolio's tax positions taken for all open federal income tax years, generally a three-year period, and has concluded that no provision for federal income tax is required in the Portfolio's financial statements.

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 may be 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 uses systematic fair valuation models provided by independent third parties to value international equity securities in order to adjust for stale pricing, which may occur between the close of certain foreign exchanges and the close of the NYSE. 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, 2013 to value the Portfolio's investments in securities and other financial instruments is included in the "Valuation Inputs Summary" in the Notes to Schedule of Investments and Other Information.

FASB Accounting Standards Update, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements" requires disclosures about amounts and reasons for all transfers in and out of Level 1 and Level 2 fair value measurements. 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 within Level 3 of the fair value hierarchy.

The following table shows transfers in or out of Level 1, Level 2 and Level 3 of the fair value hierarchy during the period ended June 30, 2013.

Portfolio	*Transfers Out of Level 2 to Level 1*
Janus Aspen Forty Portfolio	$142,424,127

Financial assets were transferred from Level 2 to Level 1 since certain foreign equity prices were applied a fair valuation adjustment factor at the end of the prior fiscal year and no factor was applied at the end of the period.

The Portfolio recognizes transfers between the levels as of the beginning of the fiscal year.

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, 2013 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.

Forward Foreign Currency Exchange Contracts
A forward foreign currency exchange contract ("forward currency contract") is an obligation to buy or sell a specified currency at a future date at a negotiated rate (which may be U.S. dollars or a foreign currency). The Portfolio may enter into forward currency contracts for hedging purposes, including, but not limited to, reducing exposure to changes in foreign currency exchange rates on foreign portfolio holdings and locking in the U.S. dollar cost of firm purchase and sale commitments for securities denominated in or exposed to foreign currencies. The Portfolio may also invest in forward currency contracts for nonhedging purposes such as seeking to enhance returns. The Portfolio is subject to currency risk in the normal course of pursuing its investment objective through its investments in forward currency contracts.

Notes to Financial Statements (unaudited) (continued)

The gain or loss arising from the difference between the U.S. dollar cost of the original contract and the value of the foreign currency in U.S. dollars upon closing a contract is included in "Net realized gain/(loss) from investment and foreign currency transactions" on the Statement of Operations.

The following table, grouped by derivative type, provides information about the fair value and location of derivatives within the Statement of Assets and Liabilities as of June 30, 2013.

Fair Value of Derivative Instruments as of June 30, 2013

Derivatives not accounted for as hedging instruments	*Asset Derivatives*		*Liability Derivatives*	
	Statement of Assets and Liabilities Location	*Fair Value*	*Statement of Assets and Liabilities Location*	*Fair Value*
Foreign Exchange Contracts	Forward Currency Contracts	$111,196		$–
Total		$111,196		$–

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, 2013.

The effect of Derivative Instruments on the Statement of Operations for the period ended June 30, 2013

Amount of Realized Gain/(Loss) on Derivatives Recognized in Income

Derivatives not accounted for as hedging instruments	*Futures*	*Swaps*	*Options*	*Forward Currency Contracts*	*Total*
Foreign Exchange Contracts	$–	$–	$–	$373,772	$373,772
Total	$–	$–	$–	$373,772	$373,772

Change in Unrealized Appreciation/(Depreciation) on Derivatives Recognized in Income

Derivatives not accounted for as hedging instruments	*Futures*	*Swaps*	*Options*	*Forward Currency Contracts*	*Total*
Foreign Exchange Contracts	$–	$–	$–	$111,196	$111,196
Total	$–	$–	$–	$111,196	$111,196

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

The financial crisis that began in 2008 has caused a significant decline in the value and liquidity of many securities of issuers worldwide in the equity and fixed-income/credit markets. In response to the crisis, the United States and certain foreign governments, along with the U.S. Federal Reserve and certain foreign central banks have taken steps to support the financial markets. The withdrawal of this support, failure of efforts to respond to the crisis, or investor perception that such efforts are not succeeding each could also negatively affect financial markets generally, and the value and liquidity of specific securities. In addition, policy and legislative changes in the United States and in other countries are impacting many aspects of financial regulation. The effect of these changes on the markets, and the practical implications for market participants, including the Portfolio, may not be fully known for some time. 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. Therefore, it is important to understand that the value of your investment may fall, sometimes sharply, and you could lose money.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") in July 2010 is dramatically changing the way in which the U.S. financial system is supervised and regulated. The Dodd-Frank Act provides for widespread regulation of financial institutions, consumer financial products and services, broker-dealers, OTC derivatives, investment advisers, credit rating agencies, and mortgage lending, which expands federal oversight in the financial sector, including the investment management industry. Many provisions of the Dodd-Frank Act will be implemented through future rulemaking. Therefore, the ultimate impact of the Dodd-Frank Act and the regulations under the Dodd-Frank Act, on the Portfolio and the investment management industry as a whole, is not yet certain.

A number of countries in the European Union ("EU") have experienced severe economic and financial difficulties. As a result, financial markets in the EU have been subject to extreme volatility and declines in asset values and liquidity. Responses to these financial problems by European governments, central banks, and others, including austerity measures and reforms, may not work, may result in social unrest, and may limit future growth and economic recovery or have other unintended consequences. Further defaults or restructuring by governments and others of their debt could have additional adverse effects on economies, financial markets, and asset valuations around the world.

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 its 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.

Offsetting Assets and Liabilities

The Portfolio has recently adopted guidance requiring entities to present gross and net information about transactions that are either offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement, regardless of whether the transactions are actually offset in the Statement of Assets and Liabilities.

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

The following tables present gross amounts of recognized assets and liabilities and the net amounts after deducting collateral that has been received by counterparties or has been pledged to counterparties (if applicable).

Offsetting of Financial Assets and Derivative Assets

Description	*Gross Amounts of Recognized Assets*	*Gross Amounts Offset in the Statement of Assets and Liabilities*	*Net Amounts of Assets Presented in the Statement of Assets and Liabilities*
Forward Currency Contracts	$111,196	$–	$111,196
Total	$111,196	$–	$111,196

Counterparty	*Net Amounts of Assets Presented in the Statement of Assets and Liabilities*	*Collateral Received*	*Net Amount*
Credit Suisse Securities LLC (USA) LLC	$ 36,083	$–	$ 36,083
HSBC Securities (USA), Inc.	28,785	–	28,785
JPMorgan Chase & Co.	34,706	–	34,706
RBC Capital Markets Corp.	11,622	–	11,622
Total	$111,196	$–	$111,196

The Portfolio does not require the counterparty to post collateral for forward currency contracts; however, the Portfolio will segregate cash or high-grade securities with its custodian in an amount at all times equal to or greater than the Portfolio's commitment with respect to these contracts. Such segregated assets are denoted on the accompanying Schedule of Investments and are evaluated daily to ensure their market value equals or exceeds the current market value of the Portfolio's corresponding forward currency contracts. The Portfolio may require the counterparty to pledge collateral daily (based on the daily valuation of the financial asset) if the Portfolio has a net aggregate unrealized gain on OTC derivative contracts with a particular counterparty. The Portfolio may deposit collateral with the custodian daily (based on the daily valuation of the financial asset) if the Portfolio has a net aggregate unrealized loss on OTC derivative contacts with a particular counterparty. The collateral amounts are subject to minimum exposure requirements and initial margin requirements. Collateral amounts are monitored and subsequently adjusted up or down as valuations fluctuate by at least the minimum exposure requirement.

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) to the Institutional Shares.

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, 2013, the Portfolio recorded a Performance Adjustment of $(752,445).

Janus Services LLC ("Janus Services"), a wholly-owned subsidiary of Janus Capital, is the Portfolio's transfer agent. In addition, Janus Services provides or arranges for the provision of certain other administrative, recordkeeping, and other shareholder relation services for the Portfolio. Janus Services is not compensated for its services related to the Shares, except for out-of-pocket costs.

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 Janus Distributors for remittance to insurance companies and qualified plan service providers as compensation for distribution and/or shareholder servicing performed by such service providers. The Plan may pay Janus Distributors a fee 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, 2013 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, 2013 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 $147,212 were paid by the Trust to a Trustee under the Deferred Plan during the period ended June 30, 2013.

Certain officers of the Portfolio may also be officers and/or directors of Janus Capital. The Portfolio pays for the salaries, fees, and expenses of certain Janus Capital employees and Portfolio officers, with respect to certain specified administration functions they perform on behalf of the Portfolio. Administration costs are separate and apart from advisory fees and other expenses paid in connection with the investment advisory services Janus Capital provides to the Portfolio. Some expenses related to compensation payable to the Portfolio's Chief Compliance Officer and compliance staff are shared with the Portfolio. Total compensation of $16,862 was paid to the Chief Compliance Officer and certain compliance staff by the Trust during the period ended June 30, 2013. 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 transfer agent. Such credits or offsets are included in "Expense and Fee Offset" on the Statement of Operations. The Portfolio could have employed the assets used by the 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, 2013, any recorded distributions from affiliated investments as affiliated dividend income, and affiliated purchases and sales can be found in the Notes to Schedule of Investments and Other Information.

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, 2013 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	$669,863,747	$308,217,363	$(20,096,923)	$288,120,440

Accumulated capital losses noted below represent net capital loss carryovers, as of December 31, 2012, that may be available to offset future realized capital gains and thereby reduce future taxable gains distributions. Under the Regulated Investment Company Modernization Act of 2010, the Portfolio is permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. Losses incurred during those future years will be required to be utilized prior to the losses incurred in pre-enactment taxable years. As a result of this ordering rule, pre-enactment capital loss carryforwards may more likely expire unused. Also, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term as under previous law. The following table shows these capital loss carryovers.

Capital Loss Carryover Expiration Schedule
For the year ended December 31, 2012

Portfolio	*December 31, 2017*	*No Expiration Short-Term*	*Long-Term*	*Accumulated Capital Losses*
Janus Aspen Forty Portfolio	$(64,279,281)	$(1,013,551)	$–	$(65,292,832)

6. Capital Share Transactions

For the period ended June 30 (unaudited) and the year ended December 31 (all numbers in thousands)	*Janus Aspen Forty Portfolio 2013*	*2012*
Transactions in Portfolio Shares – Institutional Shares		
Shares sold	617	1,703
Reinvested dividends and distributions	75	90
Shares repurchased	(1,244)	(3,696)
Net Increase/(Decrease) in Portfolio Shares	(552)	(1,903)
Shares Outstanding, Beginning of Period	11,927	13,830
Shares Outstanding, End of Period	11,375	11,927
Transactions in Portfolio Shares – Service Shares		
Shares sold	361	1,678
Reinvested dividends and distributions	62	69
Shares repurchased	(1,316)	(2,813)
Net Increase/(Decrease) in Portfolio Shares	(893)	(1,066)
Shares Outstanding, Beginning of Period	11,693	12,759
Shares Outstanding, End of Period	10,800	11,693

Notes to Financial Statements (unaudited) (continued)

7. Purchases and Sales of Investment Securities

For the period ended June 30, 2013, 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	$265,186,629	$326,964,896	$–	$–

8. Subsequent Event

Management has evaluated whether any other events or transactions occurred subsequent to June 30, 2013 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).

APPROVAL OF ADVISORY AGREEMENTS DURING THE PERIOD

The Trustees of Janus Aspen Series, none of whom has ever been affiliated with Janus Capital and each of whom serves as an "independent" Trustee (the "Trustees"), oversee the management of each Portfolio and, as required by law, determine annually whether to continue the investment advisory agreement for each Portfolio and the subadvisory agreement for the Portfolio that utilizes a subadviser.

In connection with their most recent consideration of those agreements for each Portfolio, the Trustees received and reviewed a substantial amount of information provided by Janus Capital and the subadviser in response to requests of the Trustees and their independent legal counsel. They also received and reviewed a considerable amount of information and analysis provided by, and in response to requests of, their independent fee consultant. Throughout their consideration of the agreements, the Trustees were advised by their independent legal counsel. The Trustees met with management to consider the agreements, and also met separately in executive session with their independent legal counsel and their independent fee consultant.

At a meeting held on December 7, 2012, based on the Trustees' evaluation of the information provided by Janus Capital, the subadviser and the independent fee consultant, as well as other information, the Trustees determined that the overall arrangements between each Portfolio and Janus Capital and the subadviser, as applicable, were fair and reasonable in light of the nature, extent and quality of the services provided by Janus Capital, its affiliates and the subadviser, the fees charged for those services, and other matters that the Trustees considered relevant in the exercise of their business judgment. At that meeting, the Trustees unanimously approved the continuation of the investment advisory agreement for each Portfolio, and the subadvisory agreement for the subadvised Portfolio, for the period from February 1, 2013 through February 1, 2014, subject to earlier termination as provided for in each agreement.

In considering the continuation of those agreements, the Trustees reviewed and analyzed various factors that they determined were relevant, including the factors described below, none of which by itself was considered dispositive. However, the material factors and conclusions that formed the basis for the Trustees' determination to approve the continuation of the agreements are discussed separately below. Also included is a summary of the independent fee consultant's conclusions and opinions that arose during, and were included as part of, the Trustees' consideration of the agreements.

Nature, Extent and Quality of Services

The Trustees reviewed the nature, extent and quality of the services provided by Janus Capital and the subadviser to the Portfolios, taking into account the investment objective and strategy of each Portfolio and the knowledge the Trustees gained from their regular meetings with management on at least a quarterly basis and their ongoing review of information related to the Portfolios. In addition, the Trustees reviewed the resources and key personnel of Janus Capital and the subadviser, particularly noting those employees who provide investment and risk management services to the Portfolios. The Trustees also considered other services provided to the Portfolios by Janus Capital or the subadviser, such as managing the execution of portfolio transactions and the selection of broker-dealers for those transactions. The Trustees considered Janus Capital's role as administrator to the Portfolios, noting that Janus Capital does not receive a fee for its services but is reimbursed for its out-of-pocket costs. The Trustees considered the role of Janus Capital in monitoring adherence to the Portfolios' investment restrictions, providing support services for the Trustees and Trustee committees, communicating with shareholders and overseeing the activities of other service providers, including monitoring compliance with various policies and procedures of the Portfolios and with applicable securities laws and regulations.

In this regard, the independent fee consultant noted that Janus Capital provides a number of different services for the Portfolios of Janus Aspen Series and the Funds of Janus Investment Fund (such Portfolios and Funds, together the "Janus Funds") and Janus Fund shareholders, ranging from investment management services to various other servicing functions, and that, in its opinion, Janus Capital is a capable provider of those services. The independent fee consultant also provided its belief that Janus Capital has developed institutional competitive advantages that should be able to provide superior investment management returns over the long term.

The Trustees concluded that the nature, extent and quality of the services provided by Janus Capital or the subadviser to each Portfolio were appropriate and consistent with the terms of the respective advisory and subadvisory agreements, and that, taking into account steps taken to address those Portfolios whose performance lagged that of their peers for certain periods, the quality of those services had been consistent with or superior to quality norms in the industry and the Portfolios were likely to benefit from the continued provision of those services. They also concluded that Janus Capital and the subadviser had sufficient personnel, with the appropriate education and experience, to serve the Portfolios effectively and had demonstrated its continuing ability to attract well-qualified personnel.

Performance of the Portfolios

The Trustees considered the performance results of each Portfolio over various time periods. The Trustees also noted that each of the Portfolios purses an investment strategy that is substantially similar to a corresponding Fund of Janus Investment Fund. They reviewed information comparing each Portfolio's performance with the performance of comparable funds and peer groups identified by independent data providers, and with the Portfolio's benchmark index. In this regard, the independent fee consultant found that the Janus Funds have had some recent performance challenges, but performance has improved recently, and for the 36 months ended September 30, 2012, approximately 47% of the Janus Funds were in the top two quartiles of performance and for the 12 months ended September 30, 2012, approximately 54% of the Janus Funds were in the top two quartiles of performance. The Trustees concluded that the performance of certain Portfolios was good under current market conditions. Although the performance of other Portfolios lagged that of their peers for certain periods, the Trustees also concluded that Janus Capital had taken or was taking appropriate steps to address those instances of under-performance.

Costs of Services Provided

The Trustees examined information regarding the fees and expenses of each Portfolio in comparison to similar information for other comparable funds as provided by independent data providers. They also reviewed an analysis of that information provided by their independent fee consultant and noted that the rate of management (investment advisory and any administration) fees for most of the Portfolios, after applicable contractual expense limitations, was below the mean management fee rate of the respective peer group of funds selected by the independent data providers.

In this regard, the independent fee consultant provided its belief that the management fees charged by Janus Capital to each of the Janus Funds under the current investment advisory and administration agreements are reasonable in relation to the services provided by Janus Capital. The independent fee consultant found (1) the total expenses and management fees of the Janus Funds to be reasonable relative to other mutual funds; (2) total expenses, on average, were 16% below the mean total expenses of their respective Lipper Expense Group peers and 23% below the mean total expenses for their Lipper Expense Universes; (3) management fees for the Janus Funds, on average, were 9% below the mean management fees for their Expense Groups and 12% below the mean for their Expense Universes; and (4) Janus Funds expenses at the functional level for each asset and share class category were reasonable. The independent fee consultant concluded that based on its strategic review of expenses at the complex, category and individual fund level, Janus Funds expenses were found to be reasonable relative to both Expense Group and Expense Universe benchmarks. Further, for certain Portfolios the independent fee consultant also performed a systematic "focus list" analysis of expenses in the context of the performance or service delivered to each set of investors in each share class in each selected Portfolio. Based on this analysis, the independent fee consultant found that the combination of service quality/performance and expenses on these individual Portfolios and share classes were reasonable in light of performance trends, performance histories and existence of performance fees on such Portfolios.

The Trustees considered the methodology used by Janus Capital and the subadviser in determining compensation payable to portfolio managers, the competitive environment for investment management talent and the competitive market for mutual funds in different distribution channels. They concluded that the compensation methodology provided a good alignment of the interests of the portfolio managers with the interests of Portfolio shareholders.

The Trustees also reviewed management fees charged by Janus Capital and the subadviser to their separate account clients and to non-affiliated funds subadvised by Janus Capital or by the subadviser (for which Janus Capital or the subadviser provides only portfolio management services). Although in most instances subadvisory and separate account fee rates for various investment strategies were lower than management fee rates for Portfolios having a similar strategy, the Trustees noted that, under the terms of the management agreements with the Portfolios, Janus Capital performs significant additional services for the Portfolios that it does not provide to those other clients, including administration services, oversight of the Portfolios' other service providers, trustee support, regulatory compliance and numerous other services, and that, in serving the Portfolios, Janus Capital assumes many legal risks that it does not assume in servicing its other clients. Moreover, they noted the research conducted and conclusions reached by their independent fee consultant.

In this regard, the independent fee consultant found that (1) the management fees Janus Capital charges to the Janus Funds are reasonable in relation to the management fees Janus Capital charges to its institutional and subadvised accounts; (2) these institutional and subadvised accounts have different service and infrastructure needs; and (3) the average spread between management fees charged to the Janus Funds and those charged to Janus Capital's institutional and subadvised accounts is reasonable relative to the average spreads seen in the industry.

The Trustees reviewed information on the profitability to Janus Capital and its affiliates of their relationships with each Portfolio, as well as an explanation of the methodology utilized in allocating various expenses of Janus Capital and its affiliates among the Portfolios and other clients. The Trustees also reviewed the financial statements and corporate structure of Janus Capital's parent company. In their review, the Trustees considered whether Janus Capital and the subadviser receive adequate incentives to manage the Portfolios effectively. The Trustees recognized that profitability comparisons among fund managers are difficult because very little comparative information is publicly available and the profitability of any fund manager is affected by numerous factors, including the organizational structure of the particular fund manager, the types of funds and other accounts it manages, possible other lines of business, the methodology for allocating expenses and the fund manager's capital structure and cost of capital. However, taking into account those factors and the analysis provided by the Trustees' independent fee consultant, and based on the information available, the Trustees concluded that Janus Capital's profitability with respect to each Portfolio in relation to the services rendered was not unreasonable.

In this regard, the independent fee consultant found that, while assessing the reasonability of expenses in light of Janus Capital's profits is dependent on comparisons with other publicly-traded mutual fund advisers, and that these comparisons are limited in accuracy by differences in complex size, business mix, institutional account orientation, and other factors, after accepting these limitations, the level of profit earned by Janus Capital from managing the Janus Funds is reasonable.

The Trustees concluded that the management fees and other compensation payable by each Portfolio to Janus Capital and its affiliates, as well as the fees paid by Janus Capital to the subadviser of the subadvised Portfolio, were reasonable in relation to the nature, extent and quality of the services provided, taking into account the fees charged by other advisers for managing comparable mutual funds with similar strategies, the fees Janus Capital and the subadviser charge to other clients, and, as applicable, the impact of fund performance on fees payable by the Portfolios. The Trustees also concluded that the overall expense ratio of each Portfolio was reasonable, taking into account the size of the Portfolio, the quality of services provided by Janus Capital and the subadviser, the investment performance of the Portfolio and any expense limitations agreed to by Janus Capital.

Economies of Scale

The Trustees considered information about the potential for Janus Capital to realize economies of scale as the assets of the Portfolios increase. They noted that, although many Portfolios pay advisory fees at a base fixed rate as a percentage of net assets, without any breakpoints, the actual management fee rate paid by most of the Portfolios, after any contractual expense limitations, was below the mean management fee rate of the Portfolio's peer group identified by independent data providers; and, for those Portfolios whose expenses are being reduced by the contractual expense limitations of Janus Capital, Janus Capital is subsidizing the Portfolios because they have not reached adequate scale. Moreover, as the assets of many of the Portfolios have declined in the past few years, certain Portfolios have benefited from having advisory fee rates that have remained constant rather than increasing as assets declined. In addition, performance fee structures have been implemented for various Portfolios that have caused or will cause the effective rate of advisory fees payable by such a Portfolio to vary depending on the investment performance of the Portfolio relative to its benchmark index over the measurement period; and the Portfolio that has a fee schedule with breakpoints and reduced fee rates above certain asset levels. The Trustees also noted that the Portfolios share directly in economies of scale through the lower charges of third-party service providers that are based in part on the combined scale of all of the Portfolios. Based on all of the information they reviewed, including research and analysis conducted by the Trustees' independent fee consultant, the Trustees concluded that the current fee structure of each Portfolio was reasonable and that the current rates of fees do reflect a sharing between Janus Capital and the Portfolio of economies of scale at the current asset level of the Portfolio.

In this regard, the independent fee consultant concluded that, based on analysis it completed, and given the limitations in these analytical approaches and their conflicting results, it could not confirm or deny the existence of economies of scale in the Janus complex. Further, the independent fee consultant provided its belief that Janus Funds investors are well-served by the fee levels and performance fee structures in place on the Janus Funds in light of any economies of scale that may be present at Janus Capital.

Other Benefits to Janus Capital

The Trustees also considered benefits that accrue to Janus Capital and its affiliates from their relationships with the Portfolios. They recognized that two affiliates of Janus Capital separately serve the Portfolios as transfer agent and distributor, respectively, and the transfer agent receives compensation directly from the non-money market funds for services provided. The Trustees also considered Janus Capital's past and proposed use of commissions paid by the Portfolios on their portfolio brokerage transactions to obtain proprietary and third-party research products and services benefiting the Portfolio and/or other clients of Janus Capital. The Trustees concluded that Janus Capital's use of these types of client commission arrangements to obtain proprietary and third-party research products and services was consistent with regulatory requirements and guidelines and was likely to benefit each Portfolio. The Trustees also concluded that, other than the services provided by Janus Capital and its affiliates pursuant to the agreements and the fees to be paid by each Portfolio therefor, the Portfolios and Janus Capital may potentially benefit from their relationship with each other in other ways. They concluded that Janus Capital benefits from the receipt of research products and services acquired through commissions paid on portfolio transactions of the Portfolios and that the Portfolios benefit from Janus Capital's receipt of those products and services as well as research products and services acquired through commissions paid by other clients of Janus Capital. They further concluded that success of any Portfolio could attract other business to Janus Capital or other Janus Funds, and that the success of Janus Capital could enhance Janus Capital's ability to serve the Portfolios.

After full consideration of the above factors, as well as other factors, the Trustees, each of whom is an independent Trustee, concluded at their December 7, 2012 meeting that the proposed continuation of the investment advisory agreement and, if applicable, the subadvisory agreement for each Portfolio for another year was in the best interest of the respective Portfolios and their shareholders.

Useful Information About Your Portfolio Report
(unaudited)

1. 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 risk. 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, 2013. As the investing environment changes, so could their opinions. These views are unique to them and aren't necessarily shared by fellow employees or by Janus in general.

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

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

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

3. Schedule of Investments

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

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

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

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

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

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

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

5. Statement of Operations

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

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

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

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

6. Statements of Changes in Net Assets

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

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

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

7. Financial Highlights

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

The first line in the table reflects the NAV per share at the beginning of the reporting period. The next line reports the net investment income/(loss) per share. Following is the per share total of net gains/(losses), realized and unrealized. Per share dividends and distributions to investors are then subtracted to arrive at the NAV per share at the end of the period. The next line reflects the total return for the period. The total return may include adjustments in accordance with generally accepted accounting principles required at the period end for financial reporting purposes. As a result, the total return may differ from the total return reflected for individual shareholder transactions. Also included are ratios of expenses and net investment income to average net assets.

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

The ratio of net investment income/(loss) summarizes the income earned less expenses, divided by the average net assets of the Portfolio during the reporting period. 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.

Notes

Notes

Janus provides access to a wide range of investment disciplines.

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

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

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

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

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

Mathematical
Our mathematical funds seek to outperform their respective indices while maintaining a risk profile equal to or lower than the index itself. Managed by INTECH (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.

JANUS

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

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PIMCO

Your Global Investment Authority

PIMCO Variable Insurance Trust

Semiannual Report

June 30, 2013

PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

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, 2013. On the following pages please find specific details as to the Portfolio's investment performance and a discussion of the factors that affected performance.

For most of the reporting period, intervention by the Federal Reserve ("Fed") and other developed market central banks including the European Central Bank, Bank of England and Bank of Japan, largely succeeded in suppressing market volatility and encouraged investors to move into riskier assets such as equities and high yield bonds. As a result, prices on these asset classes rose considerably through April 2013, propped up by aggressive central bank policies rather than strong economic fundamentals.

However, conditions in financial markets deteriorated rapidly beginning in mid-May as investors reacted to signals by the Fed that it might begin to slow the pace of its asset purchases later this year. Fed Chairman Ben Bernanke outlined a plan for eventually tapering quantitative easing ("QE") purchases of U.S. Treasuries and mortgage-backed securities ("MBS") as the U.S. economy begins to meet certain growth targets. In particular, this shift in tone fueled a broad-based sell-off within fixed income assets, undermining market liquidity and sending yields higher across the risk spectrum.

Highlights of the financial markets during our six-month fiscal reporting period include:

- U.S. Treasury yields rose considerably beginning in mid-May through the end of the period primarily due to the possibility that the Fed would begin considering tapering its asset purchase program. As a result, bond markets sold off with yields increasing and bond prices declining. The benchmark ten-year U.S. Treasury note yielded 2.49% at the end of the reporting period, as compared to 1.76% on December 31, 2012. The Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, declined 2.44% for the period.

- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Barclays U.S. TIPS Index, declined 7.39% over the period. Real rates rose largely following the Fed's hawkish comments regarding a more aggressive than anticipated timeline for reducing accommodative policies. In addition, technical factors such as liquidations by risk-parity type sellers amid heightened volatility and retail outflows contributed to the sell-off. U.S. TIPS underperformed nominal U.S. Treasuries as breakeven inflation levels (or the difference between nominal and real yields and a proxy for inflation expectations) narrowed. Diversified commodities posted negative returns, as represented by the Dow Jones-UBS Commodity Index Total Return, which declined 10.47% over the period.

- Investment grade credit underperformed like-duration U.S. Treasuries as the rate-driven sell-off related to QE tapering expectations created technical disruptions in credit markets. The U.S. corporate high yield sector outperformed investment grade credit as the high yield sector posted strong returns, supported by a continuation of easy monetary policy internationally, and less volatility from Europe.

- Agency MBS underperformed like-duration U.S. Treasuries amid concerns the Fed may begin tapering its purchases of Agency MBS earlier than anticipated. While the sector as a whole underperformed, there was significant distinction in performance between coupons. Higher coupons were notable outperformers relative to like-duration U.S. Treasuries and lower coupons, as the "Fed-supported" origination coupons, were negatively impacted by the sell-off in rates. Commercial MBS underperformed U.S. Treasuries with longer bonds fairing worse due to their duration, while prices for non-Agency MBS declined amid broader investor risk aversion and a weakening in liquidity.

- Rising U.S. Treasury yields later in the period, due in part to the Fed's suggestion of tapering, introduced higher volatility into financial markets. This spurred a sell-off in risk assets which led to spread widening and emerging market ("EM") currency weakness. EM external and local debt underperformed U.S. Treasuries as a result.
- Developed market equities touched record highs in the early part of 2013 and posted positive performance for the period despite the market sell-off later in the period. U.S. equities, as measured by the S&P 500 Index, returned 13.82% and global equities, as represented by the MSCI World Index, returned 8.43%. However, emerging market equities, as represented by the MSCI Emerging Markets Index, declined 9.57%, due to declining earnings growth and rising U.S. interest rates towards the latter part of the period, which placed pressure on local EM currencies. Concerns over growth and financial risk in China, worsening economic conditions in Brazil, and political turmoil in Turkey also weighed on EM equity returns.

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, 2013

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 securities 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 (888) 87-PIMCO, 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 (888) 87-PIMCO 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, 2013 to June 30, 2013.

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

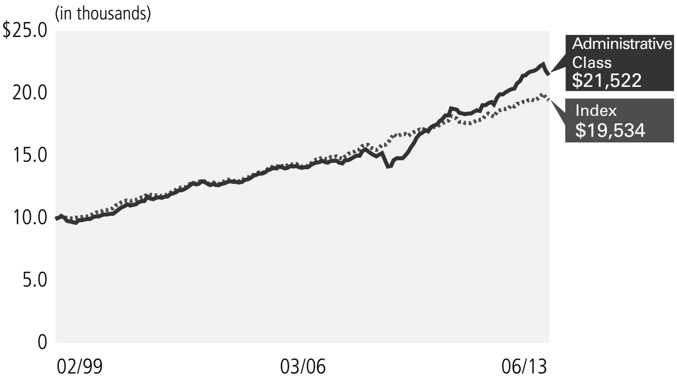
The information in the table under the heading "Hypothetical Performance (5% return before expenses)" provides information about hypothetical account values and hypothetical expenses based on the Portfolio's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not 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, 2013



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Allocation Breakdown‡

United States	27.6%
United Kingdom	13.0%
France	11.3%
Short-Term Instruments	10.7%
Spain	6.4%
Germany	6.4%
New Zealand	5.9%
Italy	5.8%
Other	12.9%

‡ % of Total Investments as of 06/30/13

Average Annual Total Return for the period ended June 30, 2013

	6 Months*	1 Year	5 Years	10 Years	Class Inception (02/16/1999)
— PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Administrative Class	-1.41%	5.44%	7.51%	5.20%	5.47%
····· JPMorgan GBI Global ex-US Index Hedged in USD±	-0.10%	2.81%	4.69%	4.14%	4.78%**

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 0.94% 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 (01/01/13)	$1,000.00	$1,000.00
Ending Account Value (06/30/13)	$ 985.90	$1,020.28
Expenses Paid During Period†	$ 4.48	$ 4.56
Net Annualized Expense Ratio	0.91%	0.91%

† *Expenses Paid During Period are equal to the net annualized expense ratio for the class, multiplied by the average account value over the period, multiplied by 181/365 (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 (USD). 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 outperformed most major currencies.

» Tactical yield curve positioning in U.S. interest rates contributed to relative performance as an underweight to the 10- to 15-year range relative to the rest of the yield curve benefited from a rise in USD-swap rates.

» Positions in non-Agency mortgage-backed securities contributed to relative performance as spreads for these securities tightened during the reporting period.

» An underweight to duration (or sensitivity to changes in market interest rates) in Japan, particularly during the first quarter of the reporting period, detracted from relative performance as Japanese yen-swap rates fell significantly during that period.

» Underweights to duration in Italy and Spain detracted from relative performance as the spread over euro-swaps for these countries' sovereign debt tightened during the reporting period.

» An overweight to duration in the U.K. detracted from relative performance as British pound sterling-swap rates rose during the reporting period.

» Overweights to the Brazilian real and the Mexican peso during May 2013 detracted from relative performance as these currencies depreciated relative to the U.S. dollar during that period.

Financial Highlights PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

Selected Per Share Data for the Year or Period Ended:	06/30/2013+	12/31/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008
Administrative Class						
Net asset value beginning of year or period	$ 10.80	$ 10.33	$ 9.98	$ 9.64	$ 9.58	$ 10.12
Net investment income [(a)]	0.11	0.26	0.23	0.21	0.37	0.35
Net realized/unrealized gain (loss)	(0.26)	0.84	0.43	0.60	1.10	(0.59)
Total income (loss) from investment operations	(0.15)	1.10	0.66	0.81	1.47	(0.24)
Dividends from net investment income	(0.10)	(0.24)	(0.21)	(0.19)	(0.32)	(0.30)
Distributions from net realized capital gains	0.00	(0.39)	(0.10)	(0.28)	(1.07)	0.00
Tax basis return of capital	0.00	0.00	0.00	0.00	(0.02)	0.00
Total distributions	(0.10)	(0.63)	(0.31)	(0.47)	(1.41)	(0.30)
Net asset value end of year or period	$ 10.55	$ 10.80	$ 10.33	$ 9.98	$ 9.64	$ 9.58
Total return	(1.41)%	10.85%	6.76%	8.49%	15.60%	(2.40)%
Net assets end of year or period (000s)	$ 67,123	$ 78,497	$ 78,493	$ 79,591	$ 69,356	$ 76,215
Ratio of expenses to average net assets	0.91%*	0.94%	0.91%	0.90%	0.91%	0.91%
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	2.03%*	2.40%	2.30%	2.06%	3.67%	3.56%
Portfolio turnover rate	68%**	356%**	218%**	130%**	459%	655%

+ 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, 2013
Assets:	
Investments, at value	$ 57,554
Investments in Affiliates, at value	1,327
Repurchase agreements, at value	485
Cash	10
Deposits with counterparty	874
Foreign currency, at value	439
Receivable for investments sold	13,813
OTC swap premiums paid	39
Variation margin receivable on financial derivative instruments	97
Unrealized appreciation on foreign currency contracts	1,406
Unrealized appreciation on OTC swap agreements	7
Receivable for Portfolio shares sold	12
Interest and dividends receivable	428
Dividends receivable from Affiliates	1
	76,492
Liabilities:	
Payable for investments purchased	$ 6,457
Payable for investments in Affiliates purchased	1
Payable for sale-buyback transactions	1,133
Written options outstanding	242
OTC swap premiums received	23
Variation margin payable on financial derivative instruments	6
Unrealized depreciation on foreign currency contracts	1,166
Unrealized depreciation on OTC swap agreements	68
Deposits from counterparty	155
Payable for Portfolio shares redeemed	49
Accrued investment advisory fees	13
Accrued supervisory and administrative fees	27
Accrued servicing fees	8
	9,348
Net Assets	$ 67,144
Net Assets Consist of:	
Paid in capital	$ 64,007
Undistributed net investment income	628
Accumulated undistributed net realized gain	4,115
Net unrealized (depreciation)	(1,606)
	$ 67,144
Net Assets:	
Institutional Class	$ 21
Administrative Class	67,123
Shares Issued and Outstanding:	
Institutional Class	2
Administrative Class	6,364
Net Asset Value and Redemption Price Per Share Outstanding:	
Institutional Class	$ 10.55
Administrative Class	10.55
Cost of Investments	$ 59,025
Cost of Investments in Affiliates	$ 1,327
Cost of Repurchase Agreements	$ 485
Cost of Foreign Currency Held	$ 444
Premiums Received on Written Options	$ 153

Statement of Operations PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Unaudited)

(Amounts in thousands)	Six Months Ended June 30, 2013
Investment Income:	
Interest	$ 1,041
Dividends	9
Dividends from Affiliate investments	8
Total Income	1,058
Expenses:	
Investment advisory fees	90
Supervisory and administrative fees	179
Servicing fees - Administrative Class	54
Interest expense	3
Total Expenses	326
Net Investment Income	732
Net Realized and Unrealized Gain (Loss):	
Net realized gain on investments	1,235
Net realized gain on futures contracts	203
Net realized gain on written options	134
Net realized gain on swaps	1,287
Net realized (loss) on foreign currency transactions	(987)
Net change in unrealized (depreciation) on investments	(4,370)
Net change in unrealized (depreciation) on futures contracts	(115)
Net change in unrealized (depreciation) on written options	(88)
Net change in unrealized (depreciation) on swaps	(879)
Net change in unrealized appreciation on translation of assets and liabilities denominated in foreign currencies	1,837
Net (Loss)	(1,743)
Net (Decrease) in Net Assets Resulting from Operations	$ (1,011)

Statements of Changes in Net Assets PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Amounts in thousands)	Six Months Ended June 30, 2013 (Unaudited)	Year Ended December 31, 2012
Increase (Decrease) in Net Assets from:		
Operations:		
Net investment income	$ 732	$ 1,796
Net realized gain	1,872	3,445
Net realized (loss) on Affiliate investments	0	(1)
Net change in unrealized appreciation (depreciation)	(3,615)	2,428
Net change in unrealized (depreciation) on Affiliate investments	0	(1)
Net increase (decrease) resulting from operations	(1,011)	7,667
Distributions to Shareholders:		
From net investment income		
Institutional Class	(0)^	(0)^
Administrative Class	(669)	(1,693)
From net realized capital gains		
Institutional Class	0	(1)
Administrative Class	0	(2,775)
Total Distributions	(669)	(4,469)
Portfolio Share Transactions:		
Net (decrease) resulting from Portfolio share transactions**	(9,694)	(3,192)
Total Increase (Decrease) in Net Assets	(11,374)	6
Net Assets:		
Beginning of period	78,518	78,512
End of period*	$ 67,144	$ 78,518
*Including undistributed net investment income of:	$ 628	$ 565

**See note 12 in the Notes to Financial Statements.
^ Amount is less than $500.

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
AUSTRALIA 3.4%			
CORPORATE BONDS & NOTES 3.0%			
Australia & New Zealand Banking Group Ltd.			
1.000% due 10/06/2016		$ 700	$ 703
Commonwealth Bank of Australia			
3.492% due 08/13/2014		500	517
Westpac Banking Corp.			
1.250% due 12/15/2017		800	779
			1,999
MORTGAGE-BACKED SECURITIES 0.2%			
Puma Finance Ltd.			
3.213% due 08/22/2037	AUD	70	63
Torrens Trust			
3.230% due 10/19/2038		95	86
			149
SOVEREIGN ISSUES 0.2%			
New South Wales Treasury Corp. CPI Linked Bond			
2.750% due 11/20/2025		100	113
Total Australia (Cost $2,288)			**2,261**
CANADA 0.8%			
SOVEREIGN ISSUES 0.8%			
Province of British Columbia			
4.300% due 06/18/2042	CAD	100	102
Province of Ontario			
6.200% due 06/02/2031		100	124
Province of Quebec			
3.000% due 09/01/2023		100	92
4.250% due 12/01/2021		200	206
Total Canada (Cost $549)			**524**
CAYMAN ISLANDS 0.3%			
ASSET-BACKED SECURITIES 0.3%			
Kingsland Ltd.			
0.522% due 06/13/2019		$ 88	88
Stanfield Bristol CLO Ltd.			
0.535% due 10/15/2019		106	106
Total Cayman Islands (Cost $192)			**194**
DENMARK 0.0%			
CORPORATE BONDS & NOTES 0.0%			
Nykredit Realkredit A/S			
6.000% due 10/01/2029	DKK	19	4
Total Denmark (Cost $2)			**4**
FRANCE 10.0%			
CORPORATE BONDS & NOTES 4.4%			
Dexia Credit Local S.A.			
0.756% due 04/29/2014		$ 400	401
2.750% due 01/10/2014		1,800	1,819
2.750% due 04/29/2014		700	712
			2,932
SOVEREIGN ISSUES 5.6%			
Caisse d'Amortissement de la Dette Sociale			
3.500% due 07/01/2014		300	309
France Government Bond			
1.000% due 05/25/2018	EUR	2,700	3,481
			3,790
Total France (Cost $6,740)			**6,722**

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
GERMANY 5.6%			
CORPORATE BONDS & NOTES 2.3%			
KFW			
2.000% due 11/30/2015	EUR	600	$ 810
6.250% due 05/19/2021	AUD	400	404
Landwirtschaftliche Rentenbank			
4.250% due 01/24/2023		400	345
			1,559
SOVEREIGN ISSUES 3.3%			
Republic of Germany			
0.100% due 04/15/2023 (c)	EUR	103	133
4.000% due 01/04/2037		700	1,164
5.500% due 01/04/2031		500	948
			2,245
Total Germany (Cost $3,778)			**3,804**
IRELAND 0.6%			
CORPORATE BONDS & NOTES 0.6%			
Depfa ACS Bank			
3.875% due 07/15/2013	EUR	300	391
Total Ireland (Cost $396)			**391**
ITALY 5.2%			
ASSET-BACKED SECURITIES 0.3%			
Berica ABS SRL			
0.522% due 12/30/2055	EUR	149	185
MORTGAGE-BACKED SECURITIES 0.5%			
Berica Residential MBS SRL			
0.537% due 03/31/2048		281	335
SOVEREIGN ISSUES 4.4%			
Italy Buoni Poliennali Del Tesoro			
3.500% due 06/01/2018		1,700	2,218
4.500% due 08/01/2018		300	410
Italy Government International Bond			
6.000% due 08/04/2028	GBP	200	306
			2,934
Total Italy (Cost $3,471)			**3,454**
LUXEMBOURG 0.2%			
CORPORATE BONDS & NOTES 0.2%			
Fiat Finance & Trade S.A.			
6.125% due 07/08/2014	EUR	100	134
Total Luxembourg (Cost $134)			**134**
MEXICO 0.2%			
SOVEREIGN ISSUES 0.2%			
Mexico Government International Bond			
10.000% due 12/05/2024	MXN	1,000	104
Total Mexico (Cost $109)			**104**
NETHERLANDS 1.0%			
ASSET-BACKED SECURITIES 0.6%			
Cadogan Square CLO BV			
0.571% due 01/17/2023	EUR	292	370

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
CORPORATE BONDS & NOTES 0.4%			
Bank Nederlandse Gemeenten			
1.375% due 03/19/2018		$ 300	$ 294
			294
Total Netherlands (Cost $681)			**664**
NEW ZEALAND 5.2%			
SOVEREIGN ISSUES 5.2%			
New Zealand Government Bond			
5.000% due 03/15/2019	NZD	1,700	1,410
5.500% due 04/15/2023		1,000	860
6.000% due 05/15/2021		1,300	1,147
New Zealand Government CPI Linked Bond			
2.000% due 09/20/2025		100	77
Total New Zealand (Cost $3,583)			**3,494**
NORWAY 1.2%			
CORPORATE BONDS & NOTES 0.6%			
DNB Boligkreditt A/S			
2.375% due 07/20/2016	EUR	300	404
SOVEREIGN ISSUES 0.6%			
Kommunalbanken A/S			
0.656% due 03/27/2017		$ 400	404
Total Norway (Cost $787)			**808**
SPAIN 5.7%			
CORPORATE BONDS & NOTES 0.8%			
Banco Bilbao Vizcaya Argentaria S.A.			
3.000% due 10/09/2014	EUR	200	266
Banco Espanol de Credito S.A.			
4.250% due 09/16/2014		200	269
			535
SOVEREIGN ISSUES 4.9%			
Autonomous Community of Madrid Spain			
4.305% due 03/06/2014		400	529
Fondo de Reestructuracion Ordenada Bancaria			
4.400% due 10/21/2013		100	132
Instituto de Credito Oficial			
1.966% due 03/25/2014		100	130
6.125% due 02/27/2014	AUD	200	181
Spain Government International Bond			
4.100% due 07/30/2018	EUR	200	267
4.500% due 01/31/2018		1,200	1,622
Xunta de Galicia			
6.131% due 04/03/2018		300	416
			3,277
Total Spain (Cost $3,854)			**3,812**
SUPRANATIONAL 3.8%			
CORPORATE BONDS & NOTES 3.8%			
Council of Europe Development Bank			
5.625% due 12/14/2015	AUD	800	767
EUROFIMA			
5.625% due 10/24/2016		200	193
European Investment Bank			
6.000% due 08/06/2020		700	682
European Union			
3.500% due 06/04/2021	EUR	200	294
Inter-American Development Bank			
6.000% due 02/26/2021	AUD	600	603
Total Supranational (Cost $2,873)			**2,539**

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
UNITED KINGDOM 11.4%			
BANK LOAN OBLIGATIONS 0.1%			
Virgin Media Investment Holdings Ltd.			
3.500% due 06/07/2020		$ 100	$ 99
CORPORATE BONDS & NOTES 0.2%			
HBOS PLC			
6.750% due 05/21/2018		100	106
MORTGAGE-BACKED SECURITIES 2.2%			
Eurosail PLC			
0.666% due 06/10/2044	GBP	68	99
Fosse Master Issuer PLC			
2.604% due 10/18/2054		200	311
Granite Master Issuer PLC			
0.532% due 12/20/2054		$ 100	92
Mansard Mortgages PLC			
1.160% due 12/15/2049	GBP	336	475
Newgate Funding PLC			
1.509% due 12/15/2050		400	518
			1,495
SOVEREIGN ISSUES 8.9%			
United Kingdom Gilt			
0.125% due 03/22/2024 (c)		926	1,464
1.875% due 11/22/2022 (c)		728	1,356
4.250% due 06/07/2032		300	521
4.250% due 09/07/2039		500	863
4.250% due 12/07/2040		300	517
4.500% due 09/07/2034		100	179
4.500% due 12/07/2042		100	180
4.750% due 12/07/2030		500	924
			6,004
Total United Kingdom (Cost $8,099)			**7,704**
UNITED STATES 24.1%			
ASSET-BACKED SECURITIES 1.7%			
Amortizing Residential Collateral Trust			
0.773% due 07/25/2032		$ 1	1
0.893% due 10/25/2031		2	2
Amresco Residential Securities Mortgage Loan Trust			
1.133% due 06/25/2029		1	1
Bear Stearns Asset-Backed Securities Trust			
0.263% due 12/25/2036		20	19
Credit Suisse First Boston Mortgage Securities Corp.			
0.813% due 01/25/2032		1	1
First Alliance Mortgage Loan Trust			
0.422% due 12/20/2027		1	1
Home Equity Mortgage Loan Asset-Backed Trust			
0.643% due 08/25/2035		200	194
Long Beach Mortgage Loan Trust			
0.753% due 10/25/2034		12	12
Morgan Stanley Mortgage Loan Trust			
5.919% due 09/25/2046 ^		234	148
Residential Asset Securities Corp. Trust			
0.693% due 07/25/2032 ^		3	2
SLM Student Loan Trust			
0.776% due 10/25/2017		223	224
1.776% due 04/25/2023		543	559
Structured Asset Securities Corp.			
0.773% due 01/25/2033		2	2
			1,166

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
BANK LOAN OBLIGATIONS 0.3%			
Springleaf Financial Funding Co.			
5.500% due 05/10/2017		$ 217	$ 218
CORPORATE BONDS & NOTES 5.0%			
Ally Financial, Inc.			
3.672% due 06/20/2014		200	203
4.625% due 06/26/2015		100	103
American International Group, Inc.			
8.000% due 05/22/2068	EUR	400	608
BA Covered Bond Issuer			
4.250% due 08/03/2017		200	288
CIT Group, Inc.			
5.250% due 04/01/2014		$ 300	305
International Lease Finance Corp.			
6.750% due 09/01/2016		200	217
Jones Group, Inc.			
5.125% due 11/15/2014		200	208
Lehman Brothers Holdings, Inc.			
1.000% due 05/02/2018 ^		200	50
Universal Health Services, Inc.			
7.125% due 06/30/2016		1,000	1,107
WM Covered Bond Program			
4.375% due 09/16/2014	EUR	200	269
			3,358
MORTGAGE-BACKED SECURITIES 7.3%			
American Home Mortgage Investment Trust			
1.914% due 09/25/2045		$ 101	99
Banc of America Large Loan Trust			
2.493% due 11/15/2015		357	359
Banc of America Mortgage Trust			
2.929% due 02/25/2036 ^		83	70
Bear Stearns Adjustable Rate Mortgage Trust			
2.571% due 08/25/2033		5	5
2.600% due 03/25/2035		88	88
2.793% due 03/25/2035		9	9
5.145% due 08/25/2035		46	47
Bear Stearns Alt-A Trust			
0.353% due 02/25/2034		101	99
2.778% due 03/25/2036 ^		122	80
2.845% due 11/25/2035 ^		60	44
2.845% due 11/25/2036		142	97
2.864% due 09/25/2035		65	54
3.645% due 08/25/2036 ^		76	52
Bear Stearns Structured Products, Inc.			
2.653% due 12/26/2046		53	37
Citigroup Mortgage Loan Trust, Inc.			
2.270% due 09/25/2035		17	16
2.290% due 09/25/2035		28	27
Countrywide Alternative Loan Trust			
0.402% due 03/20/2046		122	86
0.473% due 02/25/2037		104	72
1.173% due 12/25/2035		154	110
1.673% due 11/25/2035		27	20
5.250% due 06/25/2035		21	18
Countrywide Home Loan Mortgage Pass-Through Trust			
0.423% due 05/25/2035		51	42
0.513% due 03/25/2035		109	78
0.523% due 02/25/2035		13	12
2.915% due 11/25/2034		18	17
2.963% due 08/25/2034		53	46
Credit Suisse First Boston Mortgage Securities Corp.			
6.500% due 04/25/2033		2	2
CSMC Mortgage-Backed Trust			
5.863% due 02/25/2037 ^		246	166

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
DBUBS Mortgage Trust		
0.319% due 11/10/2046 (a)	$ 400	$ 8
1.561% due 11/10/2046 (a)	967	41
GSR Mortgage Loan Trust		
2.655% due 09/25/2035	300	277
2.796% due 01/25/2036 ^	153	137
Harborview Mortgage Loan Trust		
2.599% due 05/19/2033	9	9
IndyMac Mortgage Loan Trust		
0.433% due 07/25/2035	44	38
JPMorgan Mortgage Trust		
2.240% due 07/27/2037	199	171
2.818% due 02/25/2036 ^	92	79
Mellon Residential Funding Corp.		
0.633% due 12/15/2030	14	14
Merrill Lynch Floating Trust		
0.731% due 07/09/2021	156	155
Merrill Lynch Mortgage Investors Trust		
1.664% due 10/25/2035	26	25
Morgan Stanley Mortgage Loan Trust		
2.311% due 06/25/2036	98	88
Morgan Stanley/Bank of America/Merrill Lynch Trust		
1.662% due 12/15/2048 (a)	1,294	100
Residential Accredit Loans, Inc. Trust		
0.343% due 02/25/2047	52	28
0.373% due 06/25/2046	427	192
0.403% due 04/25/2046	117	59
Structured Adjustable Rate Mortgage Loan Trust		
2.593% due 04/25/2034	17	17
Structured Asset Mortgage Investments Trust		
0.403% due 05/25/2046	21	13
0.413% due 05/25/2036	146	100
0.413% due 09/25/2047	200	131
0.423% due 05/25/2045	39	32
0.772% due 07/19/2034	6	6
0.852% due 09/19/2032	5	5
0.892% due 03/19/2034	11	11
1.668% due 08/25/2047	67	53
TBW Mortgage-Backed Trust		
5.970% due 09/25/2036	189	50
Thornburg Mortgage Securities Trust		
1.443% due 06/25/2047	32	28
5.750% due 06/25/2047	99	95
Wachovia Mortgage Loan Trust LLC		
3.033% due 10/20/2035	296	255
WaMu Mortgage Pass-Through Certificates		
0.423% due 04/25/2045	14	13
0.503% due 01/25/2045	12	11
1.148% due 06/25/2046	74	67
1.174% due 02/25/2046	165	149
2.211% due 03/25/2033	24	24
2.220% due 02/27/2034	11	11
2.497% due 03/25/2035	145	144
Washington Mutual Alternative Mortgage Pass-Through Certificates		
1.109% due 07/25/2046 ^	46	24
Wells Fargo Mortgage-Backed Securities Trust		
2.613% due 07/25/2036 ^	128	113
2.666% due 06/25/2035	65	66
2.701% due 04/25/2036	19	19
2.770% due 03/25/2036	175	166
		4,876
MUNICIPAL BONDS & NOTES 0.5%		
Los Angeles County, California Public Works Financing Authority Revenue Bonds, (BABs), Series 2010		
7.488% due 08/01/2033	200	239

See Accompanying Notes

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Pasadena Public Financing Authority, California Revenue Bonds, (BABs), Series 2010		
7.148% due 03/01/2043	$ 100	$ 118
		357

	SHARES	
PREFERRED SECURITIES 0.7%		
DG Funding Trust		
2.534% due 07/29/2013 (d)	65	460
SLM Corp. CPI Linked Security		
3.412% due 01/16/2018	900	21
		481

	PRINCIPAL AMOUNT (000S)	
U.S. GOVERNMENT AGENCIES 6.0%		
Fannie Mae		
0.313% due 03/25/2034	$ 14	14
0.343% due 08/25/2034	9	8
0.543% due 09/25/2042	30	30
0.623% due 11/25/2040	227	228
0.643% due 11/25/2040	263	265
1.374% due 10/01/2044	31	32
2.387% due 12/01/2034	10	11
2.492% due 11/01/2034	82	88
2.571% due 05/25/2035	29	29
3.500% due 11/01/2021	97	103
5.480% due 07/01/2018	200	222
6.000% due 07/25/2044	20	23

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Freddie Mac		
0.693% due 12/15/2032	$ 22	$ 23
0.793% due 12/15/2037	87	88
1.374% due 10/25/2044	86	86
2.344% due 02/01/2029	8	9
2.500% due 03/01/2035	25	26
2.573% due 04/01/2035	194	205
Ginnie Mae		
1.750% due 04/20/2028 - 06/20/2030	3	4
2.000% due 04/20/2030 - 05/20/2030	3	2
NCUA Guaranteed Notes		
0.663% due 11/05/2020	1,659	1,669
0.753% due 12/08/2020	398	400
Tennessee Valley Authority		
6.250% due 12/15/2017	400	480
		4,045
U.S. TREASURY OBLIGATIONS 2.6%		
U.S. Treasury Bonds		
2.875% due 05/15/2043 (g)	400	354
3.125% due 11/15/2041 (h)	200	188
U.S. Treasury Inflation Protected Securities (c)		
0.125% due 01/15/2023 (g)	806	781
2.375% due 01/15/2025 (h)	123	147
U.S. Treasury Notes		
1.750% due 05/15/2023	200	188
2.000% due 02/15/2023	100	96
		1,754
Total United States (Cost $16,629)		**16,255**

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
SHORT-TERM INSTRUMENTS 9.5%		
REPURCHASE AGREEMENTS (f) 0.7%		
		$ 485
MEXICO TREASURY BILLS 5.9%		
3.957% due 10/03/2013 - 11/14/2013 (b)	MXN 52,000	3,969
U.S. TREASURY BILLS 0.9%		
0.047% due 08/22/2013 - 09/05/2013 (b)(k)	$ 590	590
	SHARES	
CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES (e) 2.0%		
PIMCO Short-Term Floating NAV Portfolio	132,626	1,327
Total Short-Term Instruments (Cost $6,591)		**6,371**
PURCHASED OPTIONS (i) 0.2%		
(Cost $81)		**127**
Total Investments 88.4% (Cost $60,837)		**$ 59,366**
Written Options (j) (0.4%) (Premiums $153)		**(242)**
Other Assets and Liabilities (Net) 12.0%		**8,020**
Net Assets 100.0%		**$ 67,144**

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.**

BORROWINGS AND OTHER FINANCING TRANSACTIONS

(f) Repurchase Agreements:

Counterparty	Lending Rate	Settlement Date	Maturity Date	Principal Amount	Collateralized By	Collateral (Received), At Value	Repurchase Agreements, At Value	Repurchase Proceeds [1]
SSB	0.010%	06/28/2013	07/01/2013	$ 485	Fannie Mae 2.200% due 10/17/2022	$ (499)	$ 485	$ 485

[1] Includes accrued interest.

Sale-Buyback Transactions:

Counterparty	Borrowing Rate	Settlement Date	Maturity Date	Borrowing Amount [2]	Payable for Sale-Buyback Transactions [3]
BCY	0.120%	06/27/2013	07/12/2013	$ 353	$ (353)
GSC	0.140%	06/27/2013	07/12/2013	780	(780)
					$ (1,133)

[2] The average amount of borrowings while outstanding during the period ended June 30, 2013 was $3,651 at a weighted average interest rate of 0.436%.

[3] Payable for sale-buyback transactions includes $1 of deferred price drop on sale-buyback transactions.

Collateral (Received)/Pledged for Borrowings and Other Financing Transactions

The following is a summary by counterparty of the market value of Borrowings and Other Financing Transactions and collateral (received)/pledged as of June 30, 2013:

(g) Securities with an aggregate market value of $1,136 have been pledged as collateral under the terms of the following master agreements as of June 30, 2013.

Counterparty	Total Market Value	Collateral (Received)/Pledged	Net Exposures [4]
Global/Master Repurchase Agreement			
SSB	$ 485	$ (499)	$ (14)
Master Securities Forward Transactions Agreement			
BCY	(353)	355	2
GSC	(780)	781	1

[4] Net Exposures represents the net receivable/(payable) that would be due from/to the counterparty(ies) in the event of default and are not disclosed as assets or liabilities in the Statement of Assets and Liabilities. Exposure from borrowings and other financing transactions can only be netted across transactions governed under the same master agreement with the same legal entity. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

EXCHANGE-TRADED OR CENTRALLY CLEARED FINANCIAL DERIVATIVE INSTRUMENTS

Futures Contracts:

Description	Type	Expiration Month	# of Contracts	Unrealized Appreciation/ (Depreciation)
3-Month Euribor December Futures	Long	12/2014	21	$ (9)
3-Month Euribor December Futures	Long	12/2015	26	(14)
3-Month Euribor June Futures	Long	06/2015	12	(4)
3-Month Euribor March Futures	Long	03/2015	9	(4)
3-Month Euribor September Futures	Long	09/2015	29	(14)
10-Year Deliverable Interest Rate Swap September Futures	Short	09/2013	3	11
Australia Government 3-Year Bond September Futures	Short	09/2013	34	17
Canada Government 10-Year Bond September Futures	Short	09/2013	3	15
Euro-Bobl September Futures	Short	09/2013	3	0
Euro-BTP Italy Government Bond September Futures	Short	09/2013	4	16
Euro-Bund 10-Year Bond September Futures	Long	09/2013	52	(153)
Japan Government 10-Year Bond September Futures	Long	09/2013	9	19
U.S. Treasury 10-Year Note September Futures	Long	09/2013	11	(32)
U.S. Treasury 30-Year Bond September Futures	Short	09/2013	15	67
United Kingdom Government 10-Year Gilt September Futures	Short	09/2013	7	51
United Kingdom Government 90-Day LIBOR Sterling Interest Rate December Futures	Long	12/2014	20	(2)
United Kingdom Government 90-Day LIBOR Sterling Interest Rate December Futures	Long	12/2015	18	(17)
United Kingdom Government 90-Day LIBOR Sterling Interest Rate June Futures	Long	06/2015	51	(11)
United Kingdom Government 90-Day LIBOR Sterling Interest Rate March Futures	Long	03/2015	21	4
United Kingdom Government 90-Day LIBOR Sterling Interest Rate September Futures	Long	09/2014	10	(1)
United Kingdom Government 90-Day LIBOR Sterling Interest Rate September Futures	Long	09/2015	77	(39)
				$ (100)

Centrally Cleared Swap Agreements:

Interest Rate Swaps

Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Market Value	Unrealized Appreciation/ (Depreciation)
Receive	3-Month CAD-Bank Bill	2.300%	06/19/2023	CAD 200	$ 10	$ 7
Receive	3-Month USD-LIBOR	1.400%	03/20/2018	$ 1,200	(1)	5
Receive	3-Month USD-LIBOR	2.000%	06/19/2023	5,200	323	238
Pay	6-Month GBP-LIBOR	1.000%	06/18/2015	GBP 400	0	(1)
Pay	6-Month JPY-LIBOR	1.500%	06/19/2033	JPY 650,000	(258)	(254)
Pay	6-Month JPY-LIBOR	1.550%	04/10/2043	70,000	(61)	(62)
Pay	6-Month JPY-LIBOR	1.723%	04/12/2043	40,000	(18)	(18)
					$ (5)	$ (85)

Exchange-Traded or Centrally Cleared Financial Derivative Instruments Summary

The following is a summary by counterparty of the market value of Exchange-Traded or Centrally Cleared Financial Derivative Instruments as of June 30, 2013:

(h) Securities with an aggregate market value of $308 and cash of $874 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of June 30, 2013.

Counterparty	Total Unrealized Appreciation/ (Depreciation)	Variation Margin Receivable/(Payable) [1]
Futures		
BCY	$ (23)	$ 5
GSC	(51)	47
SAL	(26)	31
Centrally Cleared Swaps		
DEU	24	0
FOB	(116)	9
SAL	7	(1)

[1] Variation margin receivable/(payable) represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from exchange-traded or centrally cleared financial derivative instruments can only be netted across transactions on the same exchange or clearing agent as governed under the same master agreement with the same legal entity. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

OTC FINANCIAL DERIVATIVE INSTRUMENTS

Foreign Currency Contracts:

Settlement Month	Currency to be Delivered		Currency to be Received		Counterparty	Unrealized Appreciation	Unrealized (Depreciation)	Net Unrealized Appreciation/ (Depreciation)
07/2013	AUD	24	$	22	HUS	$ 0	$ 0	$ 0
07/2013	BRL	59		27	BRC	0	0	0
07/2013		270		131	FBF	10	0	10
07/2013		113		53	HUS	3	0	3
07/2013		275		124	JPM	1	0	1
07/2013		108		49	MSC	0	0	0
07/2013		354		168	UAG	10	0	10
07/2013	EUR	198		259	BOA	1	0	1
07/2013		68		89	BPS	0	0	0
07/2013		1,989		2,633	CBK	44	0	44
07/2013		481		632	DUB	6	0	6
07/2013		414		542	JPM	3	0	3
07/2013		5,396		6,970	MSC	0	(54)	(54)
07/2013		3,723		4,931	RYL	85	0	85
07/2013	GBP	376		585	CBK	13	0	13
07/2013		32		50	HUS	1	0	1
07/2013		9,369		14,145	RYL	0	(105)	(105)
07/2013	IDR	1,560,422		151	CBK	0	(5)	(5)
07/2013	JPY	35,800		380	CBK	19	0	19
07/2013		116,800		1,158	DUB	0	(20)	(20)
07/2013		67,200		673	MSC	4	(8)	(4)
07/2013		374,974		3,778	RYL	7	(10)	(3)
07/2013		1,080		11	WST	0	0	0
07/2013	MXN	31,497		2,442	GLM	16	0	16
07/2013		15,775		1,224	MSC	7	0	7
07/2013	NZD	35		27	BPS	0	0	0
07/2013		65		52	JPM	2	0	2
07/2013		4,737		3,876	UAG	207	0	207
07/2013	$	229	AUD	243	CBK	0	(7)	(7)
07/2013		29	BRL	59	BRC	0	(3)	(3)
07/2013		127		270	FBF	0	(6)	(6)
07/2013		51		113	HUS	0	0	0
07/2013		129		275	JPM	0	(5)	(5)
07/2013		50		108	MSC	0	(2)	(2)
07/2013		163		354	UAG	0	(4)	(4)
07/2013		695	EUR	534	BPS	1	0	1
07/2013		643		486	BRC	0	(10)	(10)
07/2013		4,569		3,495	CBK	0	(20)	(20)
07/2013		1,539		1,164	DUB	0	(24)	(24)
07/2013		738		553	JPM	0	(18)	(18)
07/2013		8,389		6,373	RYL	0	(93)	(93)
07/2013		1,093	GBP	697	BPS	0	(33)	(33)

Foreign Currency Contracts: (Cont.)

Settlement Month	Currency to be Delivered	Currency to be Received	Counterparty	Unrealized Appreciation	Unrealized (Depreciation)	Net Unrealized Appreciation/ (Depreciation)
07/2013	$ 982	GBP 635	BRC	$ 0	$ (16)	$ (16)
07/2013	229	147	CBK	0	(5)	(5)
07/2013	10,059	6,514	GLM	0	(151)	(151)
07/2013	1,076	690	HUS	0	(27)	(27)
07/2013	1,227	795	JPM	0	(18)	(18)
07/2013	87	56	MSC	0	(1)	(1)
07/2013	379	243	RYL	0	(10)	(10)
07/2013	159	IDR 1,560,422	JPM	0	(3)	(3)
07/2013	16	INR 870	DUB	0	(1)	(1)
07/2013	8	424	JPM	0	(1)	(1)
07/2013	3	173	MSC	0	0	0
07/2013	513	JPY 50,200	BPS	0	(6)	(6)
07/2013	76	7,500	BRC	0	0	0
07/2013	1,021	101,200	CBK	1	(1)	0
07/2013	481	47,200	DUB	0	(5)	(5)
07/2013	333	34,100	FBF	11	0	11
07/2013	378	37,500	HUS	1	0	1
07/2013	669	66,900	JPM	6	0	6
07/2013	1,972	193,000	MSC	0	(26)	(26)
07/2013	150	14,600	RYL	0	(3)	(3)
07/2013	1,227	MXN 15,983	HUS	5	0	5
07/2013	2,491	31,849	UAG	0	(38)	(38)
07/2013	137	NZD 177	BPS	0	0	0
07/2013	158	205	BRC	1	0	1
07/2013	60	ZAR 567	BRC	0	(3)	(3)
07/2013	22	207	CBK	0	(1)	(1)
07/2013	115	1,085	MSC	0	(6)	(6)
07/2013	78	781	UAG	1	0	1
07/2013	ZAR 1,693	$ 186	BOA	15	0	15
07/2013	231	23	BRC	0	0	0
07/2013	141	14	HUS	0	0	0
07/2013	793	84	JPM	4	0	4
07/2013	420	42	MSC	0	0	0
08/2013	AUD 4,985	4,680	BRC	131	0	131
08/2013	BRL 190	88	BOA	3	0	3
08/2013	1,246	579	BRC	24	0	24
08/2013	1,745	811	DUB	34	0	34
08/2013	334	155	HUS	6	0	6
08/2013	275	128	JPM	5	0	5
08/2013	179	83	MSC	3	0	3
08/2013	1,168	541	UAG	21	0	21
08/2013	CNY 15,178	2,419	UAG	0	(32)	(32)
08/2013	EUR 3,495	4,570	CBK	20	0	20
08/2013	141	185	DUB	1	0	1
08/2013	6,373	8,390	RYL	93	0	93
08/2013	GBP 40	62	DUB	1	0	1
08/2013	6,514	10,057	GLM	151	0	151
08/2013	$ 732	AUD 804	BRC	2	0	2
08/2013	88	95	HUS	0	(1)	(1)
08/2013	98	BRL 200	FBF	0	(9)	(9)
08/2013	407	866	HUS	0	(22)	(22)
08/2013	247	534	MSC	0	(9)	(9)
08/2013	2,126	4,320	UAG	0	(204)	(204)
08/2013	319	CNY 2,000	DUB	4	0	4
08/2013	780	4,925	UAG	15	0	15
08/2013	670	EUR 514	CBK	0	(1)	(1)
08/2013	277	212	FBF	0	(1)	(1)
08/2013	1,316	1,012	JPM	2	0	2
08/2013	513	GBP 338	BRC	1	0	1
08/2013	186	122	CBK	0	(1)	(1)
09/2013	CAD 653	$ 641	RBC	21	0	21
09/2013	EUR 4,869	6,430	BOA	90	0	90
09/2013	MXN 995	76	BOA	0	0	0
09/2013	25,500	2,015	BPS	58	0	58
09/2013	490	38	BRC	0	0	0
09/2013	8,632	666	CBK	4	0	4
09/2013	2,770	215	FBF	2	0	2
09/2013	5,748	448	HUS	10	(2)	8
09/2013	2,111	161	MSC	1	(2)	(1)
09/2013	27	2	UAG	0	0	0
09/2013	$ 50	CLP 24,908	UAG	0	(2)	(2)

See Accompanying Notes

Foreign Currency Contracts: (Cont.)

Settlement Month	Currency to be Delivered		Currency to be Received		Counterparty	Unrealized Appreciation	Unrealized (Depreciation)	Net Unrealized Appreciation/ (Depreciation)
09/2013	$	1,967	MXN	25,816	BRC	$ 14	$ 0	$ 14
09/2013		1,283		15,925	JPM	0	(62)	(62)
09/2013		159		2,045	MSC	0	(2)	(2)
10/2013	MXN	7,860	$	637	HUS	36	0	36
10/2013		21,597		1,742	JPM	88	0	88
10/2013		10,785		860	MSC	36	0	36
10/2013	RUB	800		24	BRC	0	0	0
10/2013		1,004		30	HUS	0	0	0
10/2013		327		10	JPM	0	0	0
10/2013	$	148	IDR	1,560,422	CBK	3	0	3
10/2013		79	RUB	2,515	BRC	0	(4)	(4)
11/2013	MXN	982	$	78	BOA	4	0	4
11/2013		9,823		785	UAG	37	0	37
04/2014	$	72	CNY	438	BRC	0	(3)	(3)
04/2014		104		633	CBK	0	(4)	(4)
04/2014		27		164	GST	0	(2)	(2)
04/2014		48		292	HUS	0	(1)	(1)
04/2014		46		280	JPM	0	(1)	(1)
04/2014		45		275	RYL	0	(1)	(1)
04/2014		96		584	UAG	0	(3)	(3)
09/2015		70		430	BOA	0	(3)	(3)
09/2015		154		941	BRC	0	(7)	(7)
09/2015		577		3,492	CBK	0	(29)	(29)
09/2015		106		640	JPM	0	(7)	(7)
09/2015		70		431	MSC	0	(2)	(2)
						$ 1,406	$ (1,166)	$ 240

(i) Purchased Options:

Interest Rate Swaptions

Description	Counterparty	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount		Cost	Market Value
Put - OTC 30-Year Interest Rate Swap	BOA	3-Month USD-LIBOR	Receive	3.450%	09/21/2015	$	1,000	$ 81	$ 127

(j) Written Options:

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	DUB	6-Month EUR-EURIBOR	Receive	0.400%	03/12/2014	EUR	900	$ 1	$ (1)
Put - OTC 1-Year Interest Rate Swap	DUB	6-Month EUR-EURIBOR	Pay	0.400%	03/12/2014		900	2	(3)
Call - OTC 1-Year Interest Rate Swap	RYL	6-Month EUR-EURIBOR	Receive	0.400%	03/12/2014		900	2	(1)
Put - OTC 1-Year Interest Rate Swap	RYL	6-Month EUR-EURIBOR	Pay	0.400%	03/12/2014		900	2	(3)
Put - OTC 2-Year Interest Rate Swap	BOA	6-Month EUR-EURIBOR	Pay	1.150%	07/24/2013		1,300	3	0
Put - OTC 2-Year Interest Rate Swap	BRC	6-Month EUR-EURIBOR	Pay	1.150%	07/24/2013		600	1	0
Put - OTC 2-Year Interest Rate Swap	FBF	6-Month EUR-EURIBOR	Pay	1.150%	07/24/2013		900	2	0
Put - OTC 5-Year Interest Rate Swap	BOA	3-Month USD-LIBOR	Pay	1.400%	09/03/2013	$	500	1	(8)
Put - OTC 5-Year Interest Rate Swap	BOA	3-Month USD-LIBOR	Pay	2.500%	09/21/2015		4,000	76	(157)
Put - OTC 5-Year Interest Rate Swap	DUB	3-Month USD-LIBOR	Pay	1.400%	09/03/2013		400	1	(6)
Put - OTC 5-Year Interest Rate Swap	MYC	3-Month USD-LIBOR	Pay	1.450%	09/03/2013		100	1	(1)
Put - OTC 10-Year Interest Rate Swap	FBF	3-Month JPY-LIBOR	Pay	1.000%	07/17/2013	JPY	50,000	3	(3)
Put - OTC 10-Year Interest Rate Swap	RYL	3-Month JPY-LIBOR	Pay	1.050%	07/16/2013		30,000	2	(1)
Put - OTC 10-Year Interest Rate Swap	RYL	3-Month JPY-LIBOR	Pay	1.050%	08/16/2013		20,000	1	(2)
Call - OTC 10-Year Interest Rate Swap	BOA	3-Month USD-LIBOR	Receive	1.800%	07/29/2013	$	400	1	0
Call - OTC 10-Year Interest Rate Swap	BRC	3-Month USD-LIBOR	Receive	1.800%	07/29/2013		600	3	0
Call - OTC 10-Year Interest Rate Swap	GLM	3-Month USD-LIBOR	Receive	1.800%	07/29/2013		500	2	0
Call - OTC 10-Year Interest Rate Swap	JPM	3-Month USD-LIBOR	Receive	1.800%	07/29/2013		600	2	0
Put - OTC 10-Year Interest Rate Swap	JPM	3-Month USD-LIBOR	Pay	2.900%	09/30/2013		600	10	(10)
Call - OTC 10-Year Interest Rate Swap	MYC	3-Month USD-LIBOR	Receive	1.800%	07/29/2013		1,300	6	0
Put - OTC 10-Year Interest Rate Swap	MYC	3-Month USD-LIBOR	Pay	2.900%	09/30/2013		1,000	17	(17)
Call - OTC 10-Year Interest Rate Swap	RYL	3-Month USD-LIBOR	Receive	1.800%	07/29/2013		700	3	0
Put - OTC 10-Year Interest Rate Swap	RYL	3-Month USD-LIBOR	Pay	2.650%	07/29/2013		700	5	(11)
								$ 147	$ (224)

Foreign Currency Options

Description	Counterparty	Exercise Price	Expiration Date	Notional Amount	Premium	Market Value
Call - OTC USD versus MXN	BOA	MXN 12.850	07/11/2013	$ 84	$ 1	$ (1)
Call - OTC USD versus MXN	MSX	12.660	07/18/2013	485	4	(14)
Call - OTC USD versus ZAR	UAG	ZAR 9.700	07/18/2013	27	0	(1)
Call - OTC USD versus ZAR	JPM	9.870	07/18/2013	89	1	(2)
					$ 6	$ (18)

Transactions in written call and put options for the period ended June 30, 2013:

	# of Contracts	Notional Amount in $	Notional Amount in EUR	Notional Amount in JPY	Premium
Balance at 12/31/2012	0	$ 17,200	EUR 0	JPY 0	$ 283
Sales	8	42,752	8,524	100,000	292
Closing Buys	0	(24,106)	0	0	(175)
Expirations	(4)	(16,429)	(2,124)	0	(179)
Exercised	(4)	(7,332)	0	0	(68)
Balance at 06/30/2013	0	$ 12,085	EUR 6,400	JPY 100,000	$ 153

OTC Swap Agreements:

Credit Default Swaps on Corporate Issues - Buy Protection (1)

Reference Entity	Counterparty	Fixed Deal (Pay) Rate	Maturity Date	Implied Credit Spread at June 30, 2013 (3)	Notional Amount (4)	Market Value	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)
Jones Group, Inc.	BOA	(5.000%)	12/20/2014	0.853%	$ 200	$ (13)	$ (13)	$ 0
Marsh & McLennan Cos., Inc.	BRC	(1.160%)	09/20/2014	0.129%	200	(3)	0	(3)
Universal Health Services, Inc.	BOA	(1.250%)	06/20/2016	0.879%	1,000	(11)	0	(11)
Viacom, Inc.	BOA	(1.110%)	12/20/2017	0.530%	200	(5)	0	(5)
						$ (32)	$ (13)	$ (19)

Credit Default Swaps on Sovereign Issues - Sell Protection (2)

Reference Entity	Counterparty	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2013 (3)	Notional Amount (4)	Market Value	Premiums Paid	Unrealized Appreciation/ (Depreciation)
Australia Government Bond	DUB	1.000%	09/20/2016	0.329%	$ 100	$ 3	$ 2	$ 1
Australia Government Bond	UAG	1.000%	09/20/2016	0.329%	200	4	3	1
Japan Government International Bond	BOA	1.000%	06/20/2018	0.732%	200	2	3	(1)
Japan Government International Bond	BRC	1.000%	06/20/2018	0.732%	200	3	4	(1)
Japan Government International Bond	DUB	1.000%	06/20/2018	0.732%	400	5	8	(3)
Japan Government International Bond	GST	1.000%	06/20/2018	0.732%	400	7	8	(1)
Japan Government International Bond	MYC	1.000%	06/20/2018	0.732%	200	2	3	(1)
						$ 26	$ 31	$ (5)

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 (Depreciation)
iTraxx Japan 19 5-Year Index	BOA	1.000%	06/20/2018	JPY 150,000	$ (8)	$ 6	$ (14)
iTraxx Japan 19 5-Year Index	BRC	1.000%	06/20/2018	20,000	(1)	1	(2)
iTraxx Japan 19 5-Year Index	DUB	1.000%	06/20/2018	30,000	(2)	1	(3)
iTraxx Japan 19 5-Year Index	GST	1.000%	06/20/2018	40,000	(2)	1	(3)
					$ (13)	$ 9	$ (22)

(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 or sovereign 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/ (Depreciation)
Pay	1-Year BRL-CDI	8.910%	01/02/2017	BOA	BRL 600	$ (12)	$ (4)	$ (8)
Pay	1-Year BRL-CDI	9.530%	01/02/2017	BOA	400	(5)	0	(5)
Pay	28-Day MXN-TIIE	6.590%	12/08/2015	MYC	MXN 1,100	4	(1)	5
Pay	28-Day MXN-TIIE	5.000%	06/11/2018	HUS	3,500	(8)	(5)	(3)
Pay	28-Day MXN-TIIE	5.750%	02/22/2023	BRC	700	(4)	(1)	(3)
Pay	28-Day MXN-TIIE	5.750%	02/22/2023	GLM	300	(1)	0	(1)
						$ (26)	$ (11)	$ (15)

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, 2013:

(l) Securities with an aggregate market value of $240 have been pledged as collateral for OTC swap agreements and foreign currency contracts as governed by International Swaps and Derivatives Association, Inc. master agreements as of June 30, 2013.

Counterparty	Total Market Value of OTC Derivatives	Collateral (Received)/Pledged	Net Exposures (6)
BOA	$ 19	$ 0	$ 19
BPS	20	0	20
BRC	122	0	122
CBK	30	0	30
DUB	(8)	0	(8)
FBF	4	0	4
GLM	15	0	15
GST	3	0	3
HUS	1	0	1
JPM	(16)	0	(16)
MSC	(61)	(125)	(186)
MSX	(14)	0	(14)
MYC	(12)	(30)	(42)
RBC	21	0	21
RYL	(55)	240	185
UAG	11	0	11

(6) Net Exposures represents the net receivable/(payable) that would be due from/to the counterparty(ies) in the event of default and are not disclosed as assets or liabilities in the Statement of Assets and Liabilities. See note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

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, 2013:

	Derivatives not accounted for as hedging instruments					
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
Assets:						
Investments, at value (purchased options)	$ 0	$ 0	$ 0	$ 0	$ 127	$ 127
Variation margin receivable on financial derivative instruments (2)	0	0	0	0	97	97
Unrealized appreciation on foreign currency contracts	0	0	0	1,406	0	1,406
Unrealized appreciation on OTC swap agreements	0	2	0	0	5	7
	$ 0	$ 2	$ 0	$ 1,406	$ 229	$ 1,637

	Derivatives not accounted for as hedging instruments					
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
Liabilities:						
Written options outstanding	$ 0	$ 0	$ 0	$ 18	$ 224	$ 242
Variation margin payable on financial derivative instruments (2)	0	0	0	0	6	6
Unrealized depreciation on foreign currency contracts	0	0	0	1,166	0	1,166
Unrealized depreciation on OTC swap agreements	0	48	0	0	20	68
	$ 0	$ 48	$ 0	$ 1,184	$ 250	$ 1,482

The Effect of Financial Derivative Instruments on the Statement of Operations for the Period Ended June 30, 2013:

	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:						
Net realized gain on futures contracts	$ 0	$ 0	$ 0	$ 0	$ 203	$ 203
Net realized gain (loss) on written options	0	0	0	(17)	151	134
Net realized gain (loss) on swaps	0	85	0	1,387	(185)	1,287
Net realized gain on foreign currency transactions	0	0	0	141	0	141
	$ 0	$ 85	$ 0	$ 1,511	$ 169	$ 1,765
Net Change in Unrealized Appreciation (Depreciation) on Derivatives:						
Net change in unrealized appreciation on investments (purchased options)	$ 0	$ 0	$ 0	$ 0	$ 48	$ 48
Net change in unrealized (depreciation) on futures contracts	0	0	0	0	(115)	(115)
Net change in unrealized (depreciation) on written options	0	0	0	(12)	(76)	(88)
Net change in unrealized (depreciation) on swaps	0	(109)	0	(592)	(178)	(879)
Net change in unrealized appreciation on translation of assets and liabilities denominated in foreign currencies	0	0	0	1,348	0	1,348
	$ 0	$ (109)	$ 0	$ 744	$ (321)	$ 314

(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 $(100) and open centrally cleared swaps cumulative appreciation/(depreciation) of $(85) as reported in the Notes to Schedule of Investments.

FAIR VALUE MEASUREMENTS (1)

The following is a summary of the fair valuations according to the inputs used as of June 30, 2013 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2013
Investments, at value				
Australia				
Corporate Bonds & Notes	$ 0	$ 1,999	$ 0	$ 1,999
Mortgage-Backed Securities	0	149	0	149
Sovereign Issues	0	113	0	113
Canada				
Sovereign Issues	0	524	0	524
Cayman Islands				
Asset-Backed Securities	0	194	0	194
Denmark				
Corporate Bonds & Notes	0	4	0	4
France				
Corporate Bonds & Notes	0	2,932	0	2,932
Sovereign Issues	0	3,790	0	3,790
Germany				
Corporate Bonds & Notes	0	1,559	0	1,559
Sovereign Issues	0	2,245	0	2,245
Ireland				
Corporate Bonds & Notes	0	391	0	391
Italy				
Asset-Backed Securities	0	185	0	185
Mortgage-Backed Securities	0	335	0	335
Sovereign Issues	0	2,934	0	2,934
Luxembourg				
Corporate Bonds & Notes	0	134	0	134
Mexico				
Sovereign Issues	$ 0	$ 104	$ 0	$ 104
Netherlands				
Asset-Backed Securities	0	370	0	370
Corporate Bonds & Notes	0	294	0	294
New Zealand				
Sovereign Issues	0	3,494	0	3,494
Norway				
Corporate Bonds & Notes	0	404	0	404
Sovereign Issues	0	404	0	404
Spain				
Corporate Bonds & Notes	0	535	0	535
Sovereign Issues	0	3,277	0	3,277
Supranational				
Corporate Bonds & Notes	0	2,539	0	2,539
United Kingdom				
Bank Loan Obligations	0	99	0	99
Corporate Bonds & Notes	0	106	0	106
Mortgage-Backed Securities	0	1,495	0	1,495
Sovereign Issues	0	6,004	0	6,004
United States				
Asset-Backed Securities	0	1,166	0	1,166
Bank Loan Obligations	0	218	0	218
Corporate Bonds & Notes	0	3,358	0	3,358
Mortgage-Backed Securities	0	4,705	171	4,876

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2013
Municipal Bonds & Notes	$ 0	$ 357	$ 0	$ 357
Preferred Securities	21	0	460	481
U.S. Government Agencies	0	1,976	2,069	4,045
U.S. Treasury Obligations	0	1,754	0	1,754
Short-Term Instruments				
Repurchase Agreements	0	485	0	485
Mexico Treasury Bills	0	3,969	0	3,969
U.S. Treasury Bills	0	590	0	590
Central Funds Used for Cash Management Purposes	1,327	0	0	1,327
Purchased Options				
Interest Rate Contracts	0	127	0	127
	$ 1,348	$ 55,318	$ 2,700	$ 59,366

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2013
Financial Derivative Instruments - Assets				
Credit Contracts	$ 0	$ 2	$ 0	$ 2
Foreign Exchange Contracts	0	1,406	0	1,406
Interest Rate Contracts	200	255	0	455
	$ 200	$ 1,663	$ 0	$ 1,863
Financial Derivative Instruments - Liabilities				
Credit Contracts	0	(48)	0	(48)
Foreign Exchange Contracts	0	(1,184)	0	(1,184)
Interest Rate Contracts	(300)	(579)	0	(879)
	$ (300)	$ (1,811)	$ 0	$ (2,111)
Totals	$ 1,248	$ 55,170	$ 2,700	$ 59,118

There were no transfers between Level 1 and 2 during the period ended June 30, 2013.

The following is a reconciliation of the fair valuations using significant unobservable inputs (Level 3) for the Portfolio during the period ended June 30, 2013:

Category and Subcategory	Beginning Balance at 12/31/2012	Net Purchases	Net Sales	Accrued Discounts/ (Premiums)	Realized Gain/(Loss)	Net Change in Unrealized Appreciation/ (Depreciation) (2)	Transfers into Level 3	Transfers out of Level 3	Ending Balance at 06/30/2013	Net Change in Unrealized Appreciation/ (Depreciation) on Investments Held at 06/30/2013 (2)
Investments, at value										
United States										
Mortgage-Backed Securities	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 171	$ 0	$ 171	$ 0
Preferred Securities	477	0	0	0	0	(17)	0	0	460	(17)
U.S. Government Agencies	2,181	0	(116)	0	0	4	0	0	2,069	4
Totals	$ 2,658	$ 0	$ (116)	$ 0	$ 0	$ (13)	$ 171	$ 0	$ 2,700	$ (13)

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 06/30/2013	Valuation Technique	Unobservable Inputs	Input Value(s) (% Unless Noted Otherwise)
Investments, at value				
United States				
Mortgage-Backed Securities	$ 171	Third Party Vendor	Broker Quote	86.00
Preferred Securities	460	Benchmark Pricing	Base Price	$ 7,183.47
U.S. Government Agencies	2,069	Third Party Vendor	Broker Quote	100.37-100.63
Total	$ 2,700			

(1) See note 3 in the Notes to Financial Statements for more information regarding pricing inputs, valuation techniques and transfers.

(2) Any difference between Net Change in Unrealized Appreciation/(Depreciation) and Net Change in Unrealized Appreciation/(Depreciation) on Investments Held at June 30, 2013 may be due to an investment no longer held or categorized as level 3 at period end.

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 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. For convertible securities, premiums attributable to the conversion feature are not amortized. 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) Foreign Currency Translation 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. 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. The Portfolio does not separately report the effects of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and net changes in unrealized gain or loss from investments on the Statements 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 are included in net realized gain or loss on foreign currency transactions on the Statements of Operations. 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 are included in net change in unrealized appreciation or depreciation on translation of assets and liabilities denominated in foreign currencies on the Statements of Operations.

(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 cause timing differences between income and capital gain recognition. 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 (loss) and realized gains (losses) 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 Pronouncements In December 2011, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") to enhance disclosures about financial instruments and derivative instruments that are subject to offsetting ("netting") on the Statements 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. The financial statements have been modified to provide enhanced quantitative and qualitative disclosures surrounding counterparty exposure and master netting arrangements. See the Notes to Schedule of Investments and the Principal Risks Note in the Notes to Financial Statements for additional details.

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 or liabilities categorized as Level 2 or 3 as of period end have been transferred between Levels 2 and 3 since the prior period due to changes in the valuation method utilized in valuing the investments. Transfers from Level 2 to Level 3 are a result of a change, in the normal course of business, from the use of valuation methods used by third party pricing services (Level 2) to the use of a broker quote or valuation technique which utilizes significant unobservable inputs due to an absence of current or reliable market-based data (Level 3). In accordance with the requirements of U.S. GAAP, the amounts of transfers between Levels 1 and 2 and transfers in and out of Level 3, if any, are disclosed in the Notes to 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 transfers between Levels of the 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 or liabilities 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 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-buyback 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, exchange-traded notes 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 and repurchase agreements are generally valued at amortized cost which approximates fair market value. These investments are categorized as Level 2 of the fair value hierarchy.

Equity exchange-traded options and 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 by independent pricing service providers. Depending on the product and the terms of the transaction, financial derivative instruments can be valued 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 liabilities categorized as Level 3 of the fair value hierarchy are as follows:

Investments in privately held investment funds with significant restrictions on redemptions where the inputs of the NAVs are unobservable will be calculated based upon the NAVs of such investments and are categorized as Level 3 of the fair value hierarchy.

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. Broker quotes 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. These loans may include participations in "bridge loans", which are loans taken out by borrowers for a short period (typically less than one year) pending arrangement of more permanent financing through, for example, the issuance of bonds, frequently high yield bonds issued for the purpose of acquisitions. 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, 2013, 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 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.

(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) 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 will 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 executed.

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.

(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 asset, credit default, cross-currency, interest rate, total return, variance 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 instruments 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 Schedule of Investments. They 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, 2013 for which the Portfolio is the seller of protection are disclosed in the Notes to 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, equity and commodity 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 to 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.

Master Netting Arrangements The Portfolio is subject to various Master Agreements, or netting arrangements, with select counterparties. Master Agreements govern the terms of certain transactions, and reduce the counterparty risk associated with relevant transactions by specifying credit protection mechanisms and providing standardization that improves legal certainty. Since different types of 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 or sovereign securities may be used. Securities and cash pledged as collateral are reflected as assets in the Statement of Assets and Liabilities as either a component of Investments at value (securities) or Deposits due from Counterparties (cash). Cash collateral received is not typically held in a segregated account and as such is reflected as a liability in Statement of Assets and Liabilities as Deposits due to Counterparties. The market value of any securities received as collateral are not reflected as a component of net asset value. 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 and Global Master Repurchase Agreements (individually and collectively "Master Repo Agreements") govern repurchase, reverse repurchase, and sale-buyback transactions between the Portfolio and select counterparties. Master Repo Agreements maintain provisions for, among other things, initiation, income payments, events of default, and maintenance of collateral. The market value of transactions under the Master Repo Agreement, collateral pledged or received, and the net exposure by counterparty as of period end are disclosed in the Notes to Schedule of Investments.

Master Securities Forward Transaction Agreements ("Master Forward Agreements") govern the considerations and factors surrounding the settlement of certain forward settling transactions, such as To-Be-Announced securities, delayed-delivery or sale-buyback 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. The market value of forward settling transactions, collateral pledged or received, and the net exposure by counterparty as of period end is disclosed in the Notes to Schedule of Investments.

Customer Account Agreements and related addendums govern cleared derivatives transactions such as futures, options on futures, and cleared OTC derivatives. Cleared derivative transactions require posting of initial margin as determined by each relevant clearing agency and is segregated at a broker account registered with the Commodities Futures Trading Commission (CFTC), or the applicable regulator. In the US, counterparty risk is significantly reduced as creditors of the futures broker do not have claim to portfolio assets in the segregated account. Additionally, portability of exposure in the event of default further reduces risk to the portfolios. Variation margin, or daily changes in market value, are exchanged daily, but may not be netted between futures and cleared OTC derivatives. The market value or accumulated unrealized appreciation or depreciation, initial margin posted, and any unsettled variation margin as of period end is disclosed in the Notes to Schedule of Investments.

International Swaps and Derivatives Association, Inc. Master Agreements and Credit Support Annexes ("ISDA Master Agreements") govern OTC financial derivative transactions entered into by the Portfolio and select counterparties. 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. In limited circumstances, the ISDA Master Agreement may contain additional provisions that add additional counterparty protection beyond coverage of existing daily exposure if the counterparty has a decline in credit quality below a predefined level. These amounts, if any, may be segregated with a third party custodian. The market value of OTC financial derivative instruments, collateral received or pledged and net exposure by counterparty as of period end, is disclosed in the Notes to 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; (vii) organization expenses and (viii) 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, will receive an annual retainer of $35,000, plus $3,600 for each Board of Trustees meeting attended in person, $750 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 $5,000 and each other committee chair will receive an additional annual retainer of $1,500.

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, 2013, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 of the Act (amounts in thousands):

Purchases	Sales
$ 84	$ 1,913

The Portfolio may invest in the PIMCO Short-Term Floating NAV Portfolio and PIMCO Short-Term Floating NAV Portfolio III ("Central Funds") to the extent permitted by the Act and rules thereunder. The Central Funds 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 Central Funds are money market instruments and short maturity fixed income instruments. The Central Funds may incur expenses related to their investment activities, but do not pay Investment Advisory or Supervisory and Administrative Fees to PIMCO. The Central Funds are considered to be affiliated with the Portfolio. The table below shows the Portfolio's transactions in and earnings from investments in the Central Funds for the period ended June 30, 2013 (amounts in thousands):

Investments in PIMCO Short-Term Floating NAV Portfolio

Market Value 12/31/2012	Purchases at Cost	Proceeds from Sales	Net Realized Gain/(Loss)	Change in Unrealized Appreciation/ (Depreciation)	Market Value 06/30/2013	Dividend Income	Net Capital Gain Distributions
$ 1,919	$ 25,108	$ (25,700)	$ 0	$ 0	$ 1,327	$ 8	$ 0

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 have 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, 2013, were as follows (amounts in thousands):

U.S. Government/Agency		All Other	
Purchases	**Sales**	**Purchases**	**Sales**
$ 28,862	$ 34,810	$ 14,484	$ 34,307

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 06/30/2013		Year Ended 12/31/2012	
	Shares	**Amount**	**Shares**	**Amount**
Receipts for shares sold				
Institutional Class	0	$ 0	0	$ 0
Administrative Class	543	5,898	1,601	17,277
Issued as reinvestment of distributions				
Institutional Class	0	0	0	1
Administrative Class	62	669	415	4,469
Cost of shares redeemed				
Institutional Class	0	0	0	0
Administrative Class	(1,511)	(16,261)	(2,348)	(24,939)
Net (decrease) resulting from Portfolio share transactions	(906)	$ (9,694)	(332)	$ (3,192)

As of June 30, 2013, two shareholders each owned 10% or more of the total Portfolio's outstanding shares comprising 52% 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, 2013, 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 segregated 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, 2013, 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	Aggregate Gross Unrealized Appreciation	Aggregate Gross Unrealized (Depreciation)	Net Unrealized (Depreciation) [1]
$ 61,016	$ 1,155	$ (2,805)	$ (1,650)

(1) Primary differences, if any, between book and tax net unrealized appreciation/(depreciation) are attributable to wash sale loss deferrals for federal income tax purposes.

Glossary: (abbreviations that may be used in the preceding statements)

Counterparty Abbreviations:

BCY	Barclays Capital, Inc.
BOA	Bank of America N.A.
BPS	BNP Paribas S.A.
BRC	Barclays Bank PLC
CBK	Citibank N.A.
DEU	Deutsche Bank Securities, Inc.
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.
MSX	Morgan Stanley Capital Group, 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
WST	Westpac Banking Corp.

Currency Abbreviations:

AUD	Australian Dollar
BRL	Brazilian Real
CAD	Canadian Dollar
CLP	Chilean Peso
CNY	Chinese Renminbi
DKK	Danish Krone
EUR	Euro
GBP	British Pound
IDR	Indonesian Rupiah
INR	Indian Rupee
JPY	Japanese Yen
MXN	Mexican Peso
NZD	New Zealand Dollar
RUB	Russian Ruble
USD	United States Dollar
ZAR	South African Rand

Exchange Abbreviations:

OTC	Over-the-Counter

Other Abbreviations:

ABS	Asset-Backed Security
BABs	Build America Bonds
CDI	Brazil Interbank Deposit Rate
CLO	Collateralized Loan Obligation
EURIBOR	Euro Interbank Offered Rate
LIBOR	London Interbank Offered Rate
MBS	Mortgage-Backed Security
NCUA	National Credit Union Administration
TIIE	Tasa de Interés Interbancaria de Equilibrio

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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 & Trust Company
801 Pennsylvania
Kansas City, MO 64105

Transfer Agent

Boston Financial Data Services
330 W. 9th Street, 5th Floor
Kansas City, MO 64105

Legal Counsel

Dechert LLP
1900 K Street, N.W.
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.

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PIMCO

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P I M C O

Your Global Investment Authority

PIMCO Variable Insurance Trust

This brochure contains the following documents:

- Supplement dated August 16, 2013 to the Prospectuses regarding disclosure related to frequent or excessive purchases, exchanges and redemptions.
- The Semiannual Report dated June 30, 2013.

A company of Allianz

PIMCO Variable Insurance Trust

Supplement Dated August 16, 2013 to the
Administrative Class Prospectus, Institutional Class Prospectus
and Advisor Class Prospectus, each dated April 30, 2013,
as supplemented from time to time (each a "Prospectus")

Effective immediately, the third paragraph of the "Purchases and Redemptions – Frequent or Excessive Purchases, Exchanges and Redemptions" section of each Prospectus is deleted in its entirety and replaced with the following:

Except with respect to the Portfolio identified below, to discourage excessive, short-term trading and other abusive trading practices, the Board of Trustees of the Trust has adopted policies and procedures reasonably designed to detect and prevent short-term trading activity that may be harmful to a Portfolio and its shareholders ("Market Timing Policy"). Such activities may have a detrimental effect on a Portfolio and its shareholders. For example, depending upon various factors such as the size of a Portfolio and the amount of its assets maintained in cash, short-term or excessive trading by Portfolio shareholders may interfere with the efficient management of the Portfolio's investments, increase transaction costs and taxes, and may harm the performance of the Portfolio and its shareholders. The PIMCO Short-Term Portfolio is not subject to the Market Timing Policy because it generally invests in more liquid, short-duration fixed income securities and PIMCO anticipates that shareholders may purchase and sell shares of this Portfolio frequently.

Investors Should Retain This Supplement for Future Reference

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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.

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PIMCO

Semiannual Report

June 30, 2013

Your Global Investment Authority

PIMCO Variable Insurance Trust

PIMCO Low Duration Portfolio

Share Class

- Administrative

A company of Allianz

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This material is authorized for use only when preceded or accompanied by the current PIMCO Variable Insurance Trust (the "Trust") prospectus for the Portfolio. (The variable product prospectus may be obtained by contacting your Investment Consultant.)

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, 2013. On the following pages please find specific details as to the Portfolio's investment performance and a discussion of the factors that affected performance.

For most of the reporting period, intervention by the Federal Reserve ("Fed") and other developed market central banks including the European Central Bank, Bank of England and Bank of Japan, largely succeeded in suppressing market volatility and encouraged investors to move into riskier assets such as equities and high yield bonds. As a result, prices on these asset classes rose considerably through April 2013, propped up by aggressive central bank policies rather than strong economic fundamentals.

However, conditions in financial markets deteriorated rapidly beginning in mid-May as investors reacted to signals by the Fed that it might begin to slow the pace of its asset purchases later this year. Fed Chairman Ben Bernanke outlined a plan for eventually tapering quantitative easing ("QE") purchases of U.S. Treasuries and mortgage-backed securities ("MBS") as the U.S. economy begins to meet certain growth targets. In particular, this shift in tone fueled a broad-based sell-off within fixed income assets, undermining market liquidity and sending yields higher across the risk spectrum.

Highlights of the financial markets during our six-month fiscal reporting period include:

- U.S. Treasury yields rose considerably beginning in mid-May through the end of the period primarily due to the possibility that the Fed would begin considering tapering its asset purchase program. As a result, bond markets sold off with yields increasing and bond prices declining. The benchmark ten-year U.S. Treasury note yielded 2.49% at the end of the reporting period, as compared to 1.76% on December 31, 2012. The Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, declined 2.44% for the period.

- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Barclays U.S. TIPS Index, declined 7.39% over the period. Real rates rose largely following the Fed's hawkish comments regarding a more aggressive than anticipated timeline for reducing accommodative policies. In addition, technical factors such as liquidations by risk-parity type sellers amid heightened volatility and retail outflows contributed to the sell-off. U.S. TIPS underperformed nominal U.S. Treasuries as breakeven inflation levels (or the difference between nominal and real yields and a proxy for inflation expectations) narrowed. Diversified commodities posted negative returns, as represented by the Dow Jones-UBS Commodity Index Total Return, which declined 10.47% over the period.

- Investment grade credit underperformed like-duration U.S. Treasuries as the rate-driven sell-off related to QE tapering expectations created technical disruptions in credit markets. The U.S. corporate high yield sector outperformed investment grade credit as the high yield sector posted strong returns, supported by a continuation of easy monetary policy internationally, and less volatility from Europe.

- Agency MBS underperformed like-duration U.S. Treasuries amid concerns the Fed may begin tapering its purchases of Agency MBS earlier than anticipated. While the sector as a whole underperformed, there was significant distinction in performance between coupons. Higher coupons were notable outperformers relative to like-duration U.S. Treasuries and lower coupons, as the "Fed-supported" origination coupons, were negatively impacted by the sell-off in rates. Commercial MBS underperformed U.S. Treasuries with longer bonds fairing worse due to their duration, while prices for non-Agency MBS declined amid broader investor risk aversion and a weakening in liquidity.

- Rising U.S. Treasury yields later in the period, due in part to the Fed's suggestion of tapering, introduced higher volatility into financial markets. This spurred a sell-off in risk assets which led to spread widening and emerging market ("EM") currency weakness. EM external and local debt underperformed U.S. Treasuries as a result.
- Developed market equities touched record highs in the early part of 2013 and posted positive performance for the period despite the market sell-off later in the period. U.S. equities, as measured by the S&P 500 Index, returned 13.82% and global equities, as represented by the MSCI World Index, returned 8.43%. However, emerging market equities, as represented by the MSCI Emerging Markets Index, declined 9.57%, due to declining earnings growth and rising U.S. interest rates towards the latter part of the period, which placed pressure on local EM currencies. Concerns over growth and financial risk in China, worsening economic conditions in Brazil, and political turmoil in Turkey also weighed on EM equity returns.

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
President and Chairman of the Board, PIMCO Variable Insurance Trust

July 25, 2013

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 securities 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 (888) 87-PIMCO, 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 (888) 87-PIMCO 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, 2013 to June 30, 2013.

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.

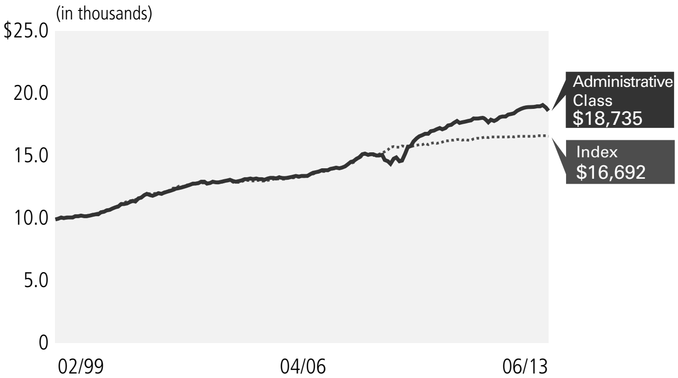
Hypothetical Example for Comparison Purposes

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).

Cumulative Returns Through June 30, 2013



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Allocation Breakdown‡

U.S. Government Agencies	35.2%
Short-Term Instruments	26.5%
Corporate Bonds & Notes	14.6%
U.S. Treasury Obligations	6.3%
Asset-Backed Securities	5.8%
Other	11.6%

‡ % of Total Investments as of 06/30/13

Average Annual Total Return for the period ended June 30, 2013

	6 Months*	1 Year	5 Years	10 Years	Class Inception (02/16/1999)
PIMCO Low Duration Portfolio Administrative Class	-1.56%	1.15%	4.36%	3.69%	4.44%
The BofA Merrill Lynch 1-3 Year U.S. Treasury Index±	0.00%	0.33%	1.90%	2.59%	3.64%**

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 (01/01/13)	$1,000.00	$1,000.00
Ending Account Value (06/30/13)	$ 984.40	$1,021.57
Expenses Paid During Period†	$ 3.20	$ 3.26
Net Annualized Expense Ratio	0.65%	0.65%

† Expenses Paid During Period are equal to the net annualized expense ratio for the class, multiplied by the average account value over the period, multiplied by 181/365 (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.
- An above benchmark U.S. duration (or sensitivity to changes in market interest rates) was a significant detractor from returns as interest rates rose during the reporting period.
- An allocation to U.S. Treasury Inflation-Protected Securities ("TIPS") detracted from performance as U.S. TIPS posted negative returns due to decreased inflation expectations over the reporting period (as represented by the breakeven inflation rate).
- Exposure to select securities within the investment grade corporate bond sector contributed to returns as these securities provided positive income over the reporting period.
- Exposure to emerging market securities detracted from performance as the sector experienced negative performance due to increased market volatility during the reporting period.
- Short exposure to the Japanese yen benefited performance as the yen depreciated against the U.S. dollar during the reporting period.

Financial Highlights PIMCO Low Duration Portfolio

Selected Per Share Data for the Year or Period Ended:	06/30/2013+	12/31/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008
Administrative Class						
Net asset value beginning of year or period	$ 10.78	$ 10.38	$ 10.44	$ 10.11	$ 9.68	$ 10.30
Net investment income [(a)]	0.05	0.14	0.14	0.14	0.31	0.41
Net realized/unrealized gain (loss)	(0.22)	0.46	(0.02)	0.39	0.95	(0.46)
Total income (loss) from investment operations	(0.17)	0.60	0.12	0.53	1.26	(0.05)
Dividends from net investment income	(0.09)	(0.20)	(0.18)	(0.17)	(0.36)	(0.41)
Distributions from net realized capital gains	0.00	0.00	0.00	(0.03)	(0.47)	(0.16)
Total distributions	(0.09)	(0.20)	(0.18)	(0.20)	(0.83)	(0.57)
Net asset value end of year or period	$ 10.52	$ 10.78	$ 10.38	$ 10.44	$ 10.11	$ 9.68
Total return	(1.56)%	5.85%	1.11%	5.29%	13.32%	(0.42)%
Net assets end of year or period (000s)	$ 1,510,571	$ 1,527,088	$ 1,326,770	$ 1,238,086	$ 890,238	$ 1,143,209
Ratio of expenses to average net assets	0.65%*	0.65%	0.65%	0.65%	0.67%	0.70%
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	0.88%*	1.29%	1.37%	1.33%	3.07%	4.00%
Portfolio turnover rate	147%**	647%**	456%**	351%**	662%	293%

+ 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 Low Duration Portfolio

(Unaudited)

(Amounts in thousands, except per share amounts)	June 30, 2013
Assets:	
Investments, at value	$ 1,881,628
Investments in Affiliates, at value	535,294
Repurchase agreements, at value	4,045
Foreign currency, at value	1,442
Receivable for investments sold	178,332
OTC swap premiums paid	3,165
Variation margin receivable on financial derivative instruments	7
Unrealized appreciation on foreign currency contracts	2,881
Unrealized appreciation on OTC swap agreements	1,219
Receivable for Portfolio shares sold	1,656
Interest and dividends receivable	7,542
Dividends receivable from Affiliates	111
	2,617,322
Liabilities:	
Payable for investments purchased	$ 374,138
Payable for investments in Affiliates purchased	111
Payable for short sales	60,336
Written options outstanding	5,365
OTC swap premiums received	944
Variation margin payable on financial derivative instruments	69
Unrealized depreciation on foreign currency contracts	5,013
Unrealized depreciation on OTC swap agreements	3,321
Deposits from counterparty	3,294
Payable for Portfolio shares redeemed	2,524
Overdraft due to custodian	459
Accrued investment advisory fees	415
Accrued supervisory and administrative fees	415
Accrued distribution fees	112
Accrued servicing fees	175
Other liabilities	2
	456,693
Net Assets	$ 2,160,629
Net Assets Consist of:	
Paid in capital	$ 2,178,378
Undistributed net investment income	7,367
Accumulated undistributed net realized gain	5,596
Net unrealized (depreciation)	(30,712)
	$ 2,160,629
Net Assets:	
Institutional Class	$ 56,750
Administrative Class	1,510,571
Advisor Class	593,308
Shares Issued and Outstanding:	
Institutional Class	5,397
Administrative Class	143,639
Advisor Class	56,417
Net Asset Value and Redemption Price Per Share Outstanding:	
Institutional Class	$ 10.52
Administrative Class	10.52
Advisor Class	10.52
Cost of Investments	$ 1,899,023
Cost of Investments in Affiliates	$ 535,406
Cost of Repurchase Agreements	$ 4,045
Cost of Foreign Currency Held	$ 1,445
Proceeds Received on Short Sales	$ 60,427
Premiums Received on Written Options	$ 1,649

See Accompanying Notes

(Amounts in thousands)	Six Months Ended June 30, 2013
Investment Income:	
Interest	$ 15,297
Dividends	392
Dividends from Affiliate investments	462
Total Income	16,151
Expenses:	
Investment advisory fees	2,620
Supervisory and administrative fees	2,620
Servicing fees - Administrative Class	1,117
Distribution and/or servicing fees - Advisor Class	687
Trustees' fees	13
Interest expense	9
Total Expenses	7,066
Net Investment Income	9,085
Net Realized and Unrealized Gain (Loss):	
Net realized gain on investments	9,294
Net realized (loss) on Affiliate investments	(27)
Net realized (loss) on futures contracts	(1)
Net realized gain on written options	2,758
Net realized gain on swaps	4,207
Net realized (loss) on foreign currency transactions	(657)
Net change in unrealized (depreciation) on investments	(47,142)
Net change in unrealized (depreciation) on Affiliate investments	(106)
Net change in unrealized (depreciation) on futures contracts	(5,089)
Net change in unrealized (depreciation) on written options	(5,203)
Net change in unrealized (depreciation) on swaps	(6,564)
Net change in unrealized appreciation on translation of assets and liabilities denominated in foreign currencies	3,843
Net (Loss)	(44,687)
Net (Decrease) in Net Assets Resulting from Operations	$ (35,602)

Statements of Changes in Net Assets PIMCO Low Duration Portfolio

(Amounts in thousands)	Six Months Ended June 30, 2013 (Unaudited)	Year Ended December 31, 2012
Increase in Net Assets from:		
Operations:		
Net investment income	$ 9,085	$ 24,239
Net realized gain	15,601	45,998
Net realized gain (loss) on Affiliate investments	(27)	126
Net change in unrealized appreciation (depreciation)	(60,155)	36,168
Net change in unrealized (depreciation) on Affiliate investments	(106)	(64)
Net increase (decrease) resulting from operations	(35,602)	106,467
Distributions to Shareholders:		
From net investment income		
Institutional Class	(546)	(1,203)
Administrative Class	(13,131)	(26,464)
Advisor Class	(4,580)	(8,460)
Total Distributions	(18,257)	(36,127)
Portfolio Share Transactions:		
Net increase resulting from Portfolio share transactions**	100,306	265,171
Total Increase in Net Assets	46,447	335,511
Net Assets:		
Beginning of period	2,114,182	1,778,671
End of period*	$ 2,160,629	$ 2,114,182
*Including undistributed net investment income of:	$ 7,367	$ 16,539

**See note 12 in the Notes to Financial Statements.

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
BANK LOAN OBLIGATIONS 1.3%		
Community Health Systems, Inc.		
2.445% due 07/25/2014	$ 100	$ 101
Flextronics International Ltd.		
2.445% due 10/01/2014	319	318
H.J. Heinz Co.		
3.500% due 06/05/2020	17,900	17,921
Health Management Associates, Inc.		
2.780% due 11/18/2016	4,538	4,549
Nielsen Finance LLC		
2.193% due 02/02/2017	2,961	2,978
Scientific Games International, Inc.		
3.450% due 06/30/2015	1,983	1,979
Total Bank Loan Obligations (Cost $27,761)		**27,846**
CORPORATE BONDS & NOTES 16.4%		
BANKING & FINANCE 12.8%		
Ally Financial, Inc.		
2.475% due 12/01/2014	1,000	990
3.125% due 01/15/2016	300	299
3.475% due 02/11/2014	1,000	1,008
3.672% due 06/20/2014	1,200	1,217
4.500% due 02/11/2014	5,000	5,055
4.625% due 06/26/2015	1,800	1,846
6.750% due 12/01/2014	4,800	5,067
8.300% due 02/12/2015	500	540
American International Group, Inc.		
3.750% due 11/30/2013	2,000	2,025
ANZ New Zealand International Ltd.		
6.200% due 07/19/2013	1,000	1,004
Banco Bradesco S.A.		
2.374% due 05/16/2014	7,100	7,168
Banco do Brasil S.A.		
4.500% due 01/22/2015	600	614
Banco Mercantil del Norte S.A.		
4.375% due 07/19/2015	1,600	1,668
Banco Santander Brasil S.A.		
4.625% due 02/13/2017	300	306
Banco Santander Chile		
3.750% due 09/22/2015	2,900	2,995
Bank of America Corp.		
7.375% due 05/15/2014	1,500	1,578
Bank of Montreal		
1.950% due 01/30/2018	4,800	4,909
Bankia S.A.		
3.500% due 12/14/2015	EUR 1,000	1,315
Banque PSA Finance S.A.		
2.182% due 04/04/2014	$ 2,500	2,479
BBVA U.S. Senior S.A.U.		
4.664% due 10/09/2015	2,500	2,576
BPCE S.A.		
2.023% due 02/07/2014	1,800	1,815
2.375% due 10/04/2013	400	402
Caledonia Generating LLC		
1.950% due 02/28/2022	1,900	1,870
CIT Group, Inc.		
4.750% due 02/15/2015	5,700	5,807
5.250% due 04/01/2014	1,100	1,119
Citigroup, Inc.		
0.399% due 03/07/2014	20,800	20,765
1.727% due 01/13/2014	2,600	2,615
Credit Agricole S.A.		
1.726% due 01/21/2014	4,200	4,226
Dexia Credit Local S.A.		
0.756% due 04/29/2014	4,200	4,208
2.750% due 04/29/2014	$ 2,700	$ 2,747
Eksportfinans ASA		
1.570% due 02/14/2018	JPY 500,000	4,150
2.000% due 09/15/2015	$ 400	386
2.375% due 05/25/2016	4,200	4,042
5.500% due 06/26/2017	1,200	1,248
Export-Import Bank of Korea		
1.250% due 11/20/2015	8,700	8,621
2.072% due 03/21/2015	8,400	8,403
First Horizon National Corp.		
5.375% due 12/15/2015	900	973
Ford Motor Credit Co. LLC		
2.750% due 05/15/2015	3,600	3,652
7.000% due 10/01/2013	1,400	1,422
7.000% due 04/15/2015	900	978
8.000% due 06/01/2014	100	106
8.700% due 10/01/2014	400	436
HSBC USA, Inc.		
2.375% due 02/13/2015	800	818
Industrial Bank of Korea		
2.375% due 07/17/2017	3,400	3,309
3.750% due 09/29/2016	2,200	2,314
ING Bank NV		
1.674% due 06/09/2014	1,500	1,513
International Lease Finance Corp.		
5.650% due 06/01/2014	5,000	5,106
6.500% due 09/01/2014	11,200	11,704
6.625% due 11/15/2013	16,805	17,078
8.625% due 09/15/2015	500	549
Intesa Sanpaolo SpA		
2.674% due 02/24/2014	2,300	2,309
JPMorgan Chase & Co.		
1.322% due 03/20/2015	9,800	9,877
3.150% due 07/05/2016	1,800	1,871
JPMorgan Chase Bank N.A.		
0.886% due 05/31/2017	EUR 2,400	3,018
Korea Development Bank		
3.250% due 03/09/2016	$ 5,300	5,490
8.000% due 01/23/2014	1,700	1,766
Merrill Lynch & Co., Inc.		
1.033% due 09/15/2026	900	764
6.500% due 07/15/2018	100	112
Morgan Stanley		
1.875% due 01/24/2014	11,500	11,569
National Australia Bank Ltd.		
0.998% due 04/11/2014	7,800	7,844
National Bank of Canada		
1.500% due 06/26/2015	3,300	3,341
Pacific Life Global Funding CPI Linked Bond		
3.482% due 06/02/2018	3,500	3,434
Petrobras Global Finance BV		
1.894% due 05/20/2016	7,500	7,474
Prudential Covered Trust		
2.997% due 09/30/2015	2,970	3,066
Qatari Diar Finance QSC		
3.500% due 07/21/2015	4,300	4,450
Rabobank Group		
4.200% due 05/13/2014	2,000	2,063
SLM Corp.		
3.875% due 09/10/2015	300	304
5.000% due 04/15/2015	200	207
6.250% due 01/25/2016	10,300	10,957
Sparebank Boligkreditt A/S		
1.250% due 10/25/2014	6,300	6,317
Sumitomo Mitsui Banking Corp.		
1.350% due 07/18/2015	12,300	12,369
Tayarra Ltd.		
3.628% due 02/15/2022	1,767	1,895
Toyota Motor Credit Corp.		
0.728% due 10/11/2013	$ 4,500	$ 4,505
UBS AG		
1.276% due 01/28/2014	582	585
Wachovia Corp.		
0.647% due 10/15/2016	3,400	3,342
		275,970
INDUSTRIALS 2.8%		
Anheuser-Busch InBev Worldwide, Inc.		
0.826% due 01/27/2014	6,100	6,119
Cadbury Schweppes U.S. Finance LLC		
5.125% due 10/01/2013	5,015	5,068
CNPC General Capital Ltd.		
1.450% due 04/16/2016	3,400	3,361
Daimler Finance North America LLC		
1.472% due 09/13/2013	1,600	1,603
1.608% due 07/11/2013	700	700
Deutsche Telekom International Finance BV		
5.250% due 07/22/2013	8,869	8,890
DISH DBS Corp.		
7.000% due 10/01/2013	600	607
7.750% due 05/31/2015	1,000	1,088
EOG Resources, Inc.		
1.023% due 02/03/2014	6,600	6,624
Florida Gas Transmission Co. LLC		
4.000% due 07/15/2015	1,700	1,793
General Electric Co.		
0.850% due 10/09/2015	4,200	4,198
General Mills, Inc.		
5.250% due 08/15/2013	3,500	3,519
HCA, Inc.		
5.750% due 03/15/2014	100	102
7.875% due 02/15/2020	5,000	5,397
8.500% due 04/15/2019	1,000	1,076
Noble Group Ltd.		
6.750% due 01/29/2020	300	306
Pemex Project Funding Master Trust		
7.500% due 12/18/2013	GBP 100	156
Sanofi		
0.586% due 03/28/2014	$ 300	301
Sinopec Group Overseas Development Ltd.		
2.750% due 05/17/2017	6,000	6,045
Time Warner Cable, Inc.		
6.200% due 07/01/2013	3,000	3,000
		59,953
UTILITIES 0.8%		
AK Transneft OJSC Via TransCapitalInvest Ltd.		
7.700% due 08/07/2013	4,800	4,816
Centrais Eletricas Brasileiras S.A.		
6.875% due 07/30/2019	700	735
Gazprom OAO Via Gaz Capital S.A.		
7.510% due 07/31/2013	2,500	2,515
Gazprom OAO Via White Nights Finance BV		
10.500% due 03/08/2014	5,250	5,559
10.500% due 03/25/2014	2,000	2,124
Qtel International Finance Ltd.		
3.375% due 10/14/2016	2,300	2,399
TNK-BP Finance S.A.		
7.500% due 07/18/2016	400	445
		18,593
Total Corporate Bonds & Notes (Cost $352,475)		**354,516**

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
MUNICIPAL BONDS & NOTES 1.6%		
ALABAMA 0.3%		
Alabama Public School & College Authority Revenue Bonds, Series 2007		
5.000% due 12/01/2025	$ 6,100	$ 6,781
CALIFORNIA 0.1%		
Santa Clara County, California General Obligation Bonds, Series 2009		
5.000% due 08/01/2030	2,600	2,845
NEW YORK 0.7%		
New York City, New York Water & Sewer System Revenue Bonds, Series 2005		
5.000% due 06/15/2037	10,200	10,386
New York City, New York Water & Sewer System Revenue Bonds, Series 2007		
5.000% due 06/15/2038	3,700	3,861
Port Authority of New York & New Jersey Revenue Notes, Series 2012		
1.650% due 12/01/2019	600	566
		14,813
PENNSYLVANIA 0.5%		
Pennsylvania Economic Development Financing Authority Revenue Notes, Series 2012		
5.000% due 07/01/2022	8,500	9,392
TEXAS 0.0%		
North Texas Higher Education Authority, Inc. Revenue Bonds, Series 2011		
1.384% due 04/01/2040	470	478
Total Municipal Bonds & Notes (Cost $35,483)		**34,309**
U.S. GOVERNMENT AGENCIES 39.5%		
Fannie Mae		
0.000% due 07/01/2036 (a)	7,573	6,937
0.253% due 12/25/2036 - 07/25/2037	895	856
0.503% due 04/25/2037	569	572
0.543% due 07/25/2037 - 03/25/2044	2,384	2,387
0.719% due 12/25/2022	93	94
0.875% due 08/28/2017	900	883
0.933% due 03/25/2040	4,328	4,377
1.000% due 01/25/2043	1,041	1,024
1.019% due 04/25/2023	102	104
1.069% due 02/25/2023	5	5
1.119% due 05/25/2022 - 06/17/2027	59	59
1.250% due 01/30/2017	2,300	2,315
1.374% due 07/01/2042 - 06/01/2043	453	461
1.424% due 09/01/2041	304	315
1.574% due 09/01/2040	3	3
2.053% due 11/01/2035	79	82
2.500% due 07/01/2028	1,000	1,005
2.617% due 07/01/2035	91	97
2.638% due 09/01/2035	453	484
3.000% due 02/01/2021 - 05/01/2043	52,082	52,522
4.000% due 03/01/2023 - 08/01/2043	223,728	233,371
4.452% due 12/01/2036	31	33
4.500% due 08/01/2018 - 08/01/2043	$ 161,505	$ 171,120
4.580% due 09/01/2034	21	23
5.000% due 02/13/2017 - 08/01/2043	148,933	160,469
5.375% due 06/12/2017	1,400	1,622
5.500% due 12/01/2027 - 08/01/2043	34,079	37,028
6.000% due 03/01/2017 - 01/01/2039	20,566	22,349
6.062% due 12/25/2042	11	12
6.500% due 04/01/2036 - 11/01/2036	307	342
FDIC Structured Sale Guaranteed Notes		
2.980% due 12/06/2020	2,869	2,968
Federal Housing Administration		
7.430% due 10/01/2020	2	2
Freddie Mac		
0.233% due 12/25/2036	1,279	1,271
0.343% due 07/15/2019 - 08/15/2019	1,525	1,526
0.453% due 08/25/2031	182	179
0.493% due 05/15/2036	505	506
0.593% due 06/15/2018	34	34
0.750% due 01/12/2018	2,200	2,132
1.000% due 07/28/2017 - 09/29/2017	3,200	3,162
1.250% due 10/02/2019	400	379
1.374% due 02/25/2045	378	383
2.733% due 07/01/2035	222	237
2.896% due 09/01/2035	520	551
3.000% due 08/01/2019	69,900	70,037
4.500% due 09/01/2038 - 07/01/2043	55,090	58,023
5.000% due 05/01/2024 - 12/01/2041	2,063	2,241
5.500% due 08/23/2017 - 07/01/2038	1,389	1,512
6.000% due 09/01/2016 - 03/01/2038	685	744
6.500% due 07/25/2043	80	89
Ginnie Mae		
1.945% due 02/20/2041	2,366	2,393
5.000% due 05/15/2039	1,936	2,096
6.000% due 09/15/2017	1,099	1,169
Small Business Administration		
5.600% due 09/01/2028	628	706
Total U.S. Government Agencies (Cost $861,723)		**853,291**
U.S. TREASURY OBLIGATIONS 7.1%		
U.S. Treasury Inflation Protected Securities (d)		
0.125% due 07/15/2022	76,952	75,209
0.625% due 07/15/2021	11,556	11,930
1.125% due 01/15/2021	10,099	10,800
1.250% due 07/15/2020	12,049	13,089
1.375% due 01/15/2020	4,086	4,453
U.S. Treasury Notes		
0.625% due 04/30/2018	14,200	13,718
0.750% due 10/31/2017 (i)(k)	20,600	20,207
0.750% due 12/31/2017	3,400	3,325
Total U.S. Treasury Obligations (Cost $164,471)		**152,731**
MORTGAGE-BACKED SECURITIES 5.3%		
Adjustable Rate Mortgage Trust		
2.878% due 09/25/2035	1,285	1,151
American Home Mortgage Investment Trust		
2.416% due 02/25/2045	$ 218	$ 218
2.559% due 10/25/2034	420	413
Banc of America Commercial Mortgage Trust		
5.634% due 04/10/2049	183	186
Banc of America Funding Corp.		
0.473% due 07/25/2037	1,603	1,299
5.630% due 01/20/2047 ^	661	505
Banc of America Large Loan Trust		
2.493% due 11/15/2015	715	717
Banc of America Mortgage Trust		
2.657% due 07/25/2034	1,072	1,068
2.875% due 05/25/2033	614	605
3.102% due 08/25/2034	3,789	3,721
6.500% due 10/25/2031	11	12
BCAP LLC Trust		
0.365% due 09/26/2035	876	858
Bear Stearns Adjustable Rate Mortgage Trust		
2.320% due 08/25/2035	2,591	2,561
2.450% due 04/25/2033	9	9
2.573% due 04/25/2033	7	7
2.793% due 03/25/2035	2,377	2,359
2.913% due 08/25/2035 ^	491	404
2.917% due 07/25/2034	454	429
2.959% due 02/25/2033	2	2
2.976% due 01/25/2035	286	271
3.071% due 01/25/2034	30	30
5.147% due 01/25/2035	6,427	6,360
Bear Stearns Alt-A Trust		
0.353% due 02/25/2034	640	626
Bear Stearns Commercial Mortgage Securities Trust		
5.331% due 02/11/2044	400	439
Bear Stearns Structured Products, Inc.		
2.638% due 01/26/2036	1,288	978
2.653% due 12/26/2046	686	481
Chevy Chase Funding LLC		
0.473% due 01/25/2035	97	87
Citigroup Mortgage Loan Trust, Inc.		
2.540% due 05/25/2035	242	236
2.703% due 08/25/2035	1,184	649
Countrywide Alternative Loan Trust		
0.373% due 05/25/2047	704	536
6.000% due 10/25/2033	18	18
Countrywide Home Loan Mortgage Pass-Through Trust		
2.459% due 02/20/2036	659	497
2.740% due 02/20/2035	1,462	1,374
2.890% due 11/20/2034	1,740	1,619
2.915% due 11/25/2034	895	828
Credit Suisse First Boston Mortgage Securities Corp.		
0.827% due 03/25/2032	2	1
Credit Suisse Mortgage Capital Certificates		
2.753% due 09/26/2047	839	853
Credit Suisse Mortgage Pass-Through Certificates		
5.448% due 01/15/2049	136	136
DBRR Trust		
0.853% due 02/25/2045	3,241	3,241
Deutsche Mortgage Securities, Inc.		
5.235% due 06/26/2035	1,500	1,534
Epic Opera Arlington Ltd.		
0.754% due 07/28/2016	GBP 979	1,473
First Horizon Alternative Mortgage Securities		
2.313% due 09/25/2034	$ 1,917	1,891
First Horizon Mortgage Pass-Through Trust		
2.615% due 08/25/2035	534	512
2.625% due 02/25/2035	2,889	2,820
German Residential Asset Note Distributor PLC		
1.615% due 01/20/2021	EUR 2,822	3,669

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
GMAC Mortgage Corp. Loan Trust		
3.231% due 11/19/2035	$ 322	$ 295
Granite Master Issuer PLC		
0.332% due 12/20/2054	4,415	4,283
0.392% due 12/20/2054	686	666
0.813% due 12/20/2054	GBP 716	1,061
Granite Mortgages PLC		
0.588% due 01/20/2044	EUR 122	156
0.884% due 01/20/2044	GBP 105	157
0.889% due 09/20/2044	769	1,150
Great Hall Mortgages PLC		
0.403% due 06/18/2039	$ 1,687	1,500
Greenpoint Mortgage Pass-Through Certificates		
2.920% due 10/25/2033	1,655	1,630
Greenwich Capital Commercial Funding Corp.		
4.799% due 08/10/2042	200	209
5.444% due 03/10/2039	1,900	2,108
GS Mortgage Securities Trust		
1.103% due 03/06/2020	2,090	2,096
GSR Mortgage Loan Trust		
2.664% due 09/25/2035	1,249	1,233
2.943% due 09/25/2034	211	194
Harborview Mortgage Loan Trust		
0.412% due 05/19/2035	147	120
2.765% due 07/19/2035	827	706
Holmes Master Issuer PLC		
1.561% due 10/15/2054	EUR 985	1,291
Impac CMB Trust		
1.193% due 07/25/2033	$ 227	204
IndyMac Mortgage Loan Trust		
2.566% due 12/25/2034	413	395
JPMorgan Chase Commercial Mortgage Securities Corp.		
5.714% due 03/18/2051	2,500	2,783
JPMorgan Chase Commercial Mortgage Securities Trust		
0.643% due 07/15/2019	1,200	1,165
4.654% due 01/12/2037	2,357	2,364
5.420% due 01/15/2049	600	667
5.882% due 02/15/2051	1,300	1,473
JPMorgan Mortgage Trust		
4.479% due 02/25/2035	159	160
5.750% due 01/25/2036	44	40
MASTR Asset Securitization Trust		
5.500% due 09/25/2033	15	16
Mellon Residential Funding Corp.		
0.673% due 06/15/2030	168	166
Merrill Lynch Floating Trust		
0.731% due 07/09/2021	16,809	16,764
Merrill Lynch Mortgage Investors Trust		
0.403% due 02/25/2036	467	405
0.443% due 11/25/2035	396	368
1.193% due 10/25/2035	226	223
2.081% due 01/25/2029	19	19
2.440% due 10/25/2035	873	873
Merrill Lynch/Countrywide Commercial Mortgage Trust		
5.485% due 03/12/2051	2,700	2,999
Morgan Stanley Re-REMIC Trust		
5.982% due 08/12/2045	700	787
Prime Mortgage Trust		
0.593% due 02/25/2019	1	1
0.593% due 02/25/2034	16	16
Radamantis European Loan Conduit PLC		
0.674% due 10/25/2015	GBP 80	120
Residential Funding Mortgage Securities, Inc. Trust		
3.270% due 09/25/2035 ^	$ 1,291	1,028
Salomon Brothers Mortgage Securities, Inc.		
7.000% due 12/25/2018	34	36

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Structured Adjustable Rate Mortgage Loan Trust		
1.563% due 01/25/2035	$ 352	$ 269
2.578% due 02/25/2034	494	491
2.607% due 08/25/2034	683	665
2.609% due 08/25/2035	377	348
Structured Asset Mortgage Investments Trust		
0.473% due 02/25/2036	207	159
0.852% due 09/19/2032	6	6
Structured Asset Securities Corp.		
2.718% due 10/28/2035	255	240
UBS Commercial Mortgage Trust		
0.768% due 07/15/2024	332	331
Wachovia Bank Commercial Mortgage Trust		
0.273% due 06/15/2020	2,038	2,022
0.333% due 06/15/2020	6,300	6,113
5.421% due 04/15/2047	829	831
WaMu Mortgage Pass-Through Certificates		
0.463% due 12/25/2045	182	170
0.533% due 01/25/2045	1,324	1,178
0.899% due 01/25/2047	437	408
1.368% due 11/25/2042	78	72
1.370% due 05/25/2041	28	26
1.568% due 06/25/2042	43	40
1.568% due 08/25/2042	189	174
2.220% due 02/27/2034	29	30
Wells Fargo Mortgage-Backed Securities Trust		
2.619% due 01/25/2035	724	717
2.624% due 12/25/2034	548	542
2.641% due 03/25/2036	625	611
2.663% due 03/25/2035	544	550
Total Mortgage-Backed Securities (Cost $114,638)		**115,603**

ASSET-BACKED SECURITIES 6.5%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
ACE Securities Corp. Home Equity Loan Trust		
0.253% due 10/25/2036	126	40
Ameriquest Mortgage Securities, Inc. Asset-Backed Pass-Through Certificates		
0.693% due 09/25/2035	7,100	6,005
AMMC CLO Ltd.		
0.507% due 08/08/2017	252	252
Amortizing Residential Collateral Trust		
0.773% due 07/25/2032	13	12
Apidos CDO Ltd.		
0.536% due 07/27/2017	648	646
Asset-Backed Securities Corp. Home Equity Loan Trust		
0.468% due 09/25/2034	286	284
1.843% due 03/15/2032	160	149
Avalon Capital Ltd.		
0.544% due 02/24/2019	1,584	1,578
Avenue CLO Ltd.		
0.536% due 10/30/2017	1,764	1,763
Avoca CLO PLC		
0.547% due 01/16/2023	EUR 1,596	2,033
Bear Stearns Asset-Backed Securities Trust		
1.193% due 10/25/2037	$ 2,747	2,374
Cadogan Square CLO BV		
0.571% due 01/17/2023	EUR 3,796	4,811
Citibank Omni Master Trust		
2.943% due 08/15/2018	$ 1,500	1,541
Citigroup Mortgage Loan Trust, Inc.		
0.673% due 09/25/2035	6,200	4,978
Cougar CLO PLC		
0.581% due 07/15/2020	EUR 9,063	11,676
Countrywide Asset-Backed Certificates		
0.453% due 05/25/2036	$ 932	928

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
0.673% due 12/25/2031	$ 36	$ 25
0.893% due 12/25/2033	2,102	1,975
0.993% due 03/25/2033	1,710	1,541
Credit Suisse First Boston Mortgage Securities Corp.		
0.813% due 01/25/2032	9	8
Dryden Leveraged Loan CDO		
0.523% due 05/22/2017	866	863
Educational Services of America, Inc.		
1.343% due 09/25/2040	3,257	3,335
Equity One ABS, Inc.		
0.753% due 11/25/2032	8	7
Eurocredit CDO BV		
0.808% due 10/20/2016	EUR 1,095	1,411
First Franklin Mortgage Loan Trust		
0.673% due 05/25/2035	$ 300	266
Four Corners CLO Ltd.		
0.547% due 01/26/2020	2,561	2,543
Franklin CLO Ltd.		
0.533% due 06/15/2018	5,652	5,561
Galaxy CLO Ltd.		
0.536% due 10/20/2017	195	195
GE-WMC Mortgage Securities LLC		
0.233% due 08/25/2036	17	7
Goldentree Loan Opportunities Ltd.		
0.972% due 10/18/2021	1,500	1,492
Gulf Stream Compass CLO Ltd.		
0.535% due 01/24/2020	4,735	4,727
Halcyon Structured Asset Management Long/Short Ltd.		
0.467% due 10/12/2018	2,436	2,435
HSBC Home Equity Loan Trust		
0.482% due 01/20/2034	1,165	1,145
Hyde Park CDO BV		
0.569% due 06/14/2022	EUR 3,464	4,408
Landmark CDO Ltd.		
0.552% due 07/15/2018	$ 3,667	3,647
Leopard CLO BV		
0.572% due 04/21/2020	EUR 660	849
Long Beach Mortgage Loan Trust		
0.753% due 10/25/2034	$ 34	32
Massachusetts Educational Financing Authority		
1.226% due 04/25/2038	929	936
Mercator CLO PLC		
0.437% due 02/18/2024	EUR 1,468	1,869
Merrill Lynch Mortgage Investors Trust		
0.393% due 08/25/2036	$ 1,178	1,137
0.483% due 08/25/2036	700	624
Morgan Stanley Investment Management Croton Ltd.		
0.537% due 01/15/2018	725	723
NAC EuroLoan Advantage Ltd.		
1.433% due 04/20/2019	1,242	1,243
1.593% due 04/20/2019	GBP 868	1,321
Neptune Finance CCS Ltd.		
0.891% due 04/20/2020	$ 2,200	2,194
NOB Hill CLO Ltd.		
0.525% due 08/15/2018	3,498	3,481
Oak Hill Credit Partners		
0.524% due 05/17/2021	7,803	7,783
Opteum Mortgage Acceptance Corp. Asset-Backed Pass-Through Certificates		
0.473% due 12/25/2035	1,020	860
Pacifica CDO Corp.		
0.536% due 01/26/2020	2,471	2,466
Panhandle-Plains Higher Education Authority, Inc.		
1.404% due 10/01/2035	1,955	1,959
RAAC Series		
0.673% due 03/25/2037	900	799

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Renaissance Home Equity Loan Trust		
0.693% due 12/25/2033	$ 4,627	$ 4,640
Residential Asset Securities Corp. Trust		
0.513% due 01/25/2036	6,300	5,817
SLC Student Loan Trust		
0.355% due 11/15/2021	626	623
4.750% due 06/15/2033	2,059	1,924
SLM Student Loan Trust		
0.356% due 10/25/2021	539	539
0.453% due 03/15/2024	2,000	1,910
0.943% due 10/16/2023	2,935	2,938
1.243% due 06/15/2023	3,733	3,745
1.293% due 12/15/2021	1,299	1,305
1.776% due 04/25/2023	730	751
1.843% due 12/15/2017	544	546
3.500% due 08/17/2043	2,603	2,460
South Carolina Student Loan Corp.		
1.025% due 03/02/2020	2,000	2,009
Stanfield Bristol CLO Ltd.		
0.535% due 10/15/2019	1,810	1,806
Stone Tower CLO Ltd.		
0.533% due 05/26/2017	983	981
Structured Asset Investment Loan Trust		
0.553% due 10/25/2035	605	579
0.898% due 03/25/2034	681	625
1.168% due 10/25/2033	1,819	1,721
Wells Fargo Home Equity Trust		
0.453% due 05/25/2036	1,100	928
Wood Street CLO BV		
0.544% due 11/22/2021	EUR 1,591	2,031
Total Asset-Backed Securities (Cost $138,548)		**140,815**
SOVEREIGN ISSUES 4.0%		
Autonomous Community of Catalonia		
4.750% due 06/04/2018	2,700	3,348
Autonomous Community of Valencia		
4.375% due 07/16/2015	2,000	2,601
Brazil Letras do Tesouro Nacional		
0.000% due 01/01/2017	BRL 7,000	2,185
Brazil Notas do Tesouro Nacional		
10.000% due 01/01/2017	5,873	2,576
10.000% due 01/01/2021	65	28
10.000% due 01/01/2023	64	27
Hydro-Quebec		
2.000% due 06/30/2016	$ 12,800	13,175
Kommunalbanken A/S		
1.375% due 06/08/2017	7,000	6,979
Mexico Government International Bond		
5.000% due 06/16/2016 (d)	MXN 22,778	1,954
6.250% due 06/16/2016	38,000	3,082
Province of Ontario		
0.950% due 05/26/2015	$ 13,900	13,994
1.100% due 10/25/2017	$ 13,600	$ 13,277
1.650% due 09/27/2019	2,300	2,199
3.150% due 06/02/2022	CAD 6,300	5,969
3.200% due 09/08/2016	800	794
4.000% due 06/02/2021	1,200	1,219
4.200% due 06/02/2020	100	103
4.300% due 03/08/2017	9,000	9,270
4.400% due 06/02/2019	400	418
Province of Quebec		
4.250% due 12/01/2021	2,100	2,160
4.500% due 12/01/2017	600	625
4.500% due 12/01/2018	200	210
Republic of Korea		
4.875% due 09/22/2014	$ 600	626
5.750% due 04/16/2014	500	518
Total Sovereign Issues (Cost $88,642)		**87,337**

	SHARES	MARKET VALUE (000S)
CONVERTIBLE PREFERRED SECURITIES 0.3%		
BANKING & FINANCE 0.3%		
Wells Fargo & Co.		
7.500% due 12/31/2049 (e)	5,463	6,523
INDUSTRIALS 0.0%		
Motors Liquidation Co.		
5.250% due 03/06/2032 (b)	4,000	0
Total Convertible Preferred Securities (Cost $4,450)		**6,523**
PREFERRED SECURITIES 0.2%		
BANKING & FINANCE 0.2%		
DG Funding Trust		
2.534% due 07/29/2013 (e)	420	2,972
Farm Credit Bank of Texas		
10.000% due 12/15/2020 (e)	1,900	2,290
Total Preferred Securities (Cost $6,419)		**5,262**

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
SHORT-TERM INSTRUMENTS 29.8%		
CERTIFICATES OF DEPOSIT 1.9%		
Dexia Credit Local S.A.		
1.500% due 09/27/2013	$ 2,900	2,906
1.700% due 09/06/2013	13,100	13,125
Itau Unibanco Holding S.A.		
0.000% due 10/31/2013	20,900	20,797
0.000% due 11/01/2013	3,300	3,286
		40,114
COMMERCIAL PAPER 1.2%		
British Telecommunications PLC		
0.750% due 04/08/2014	$ 1,600	$ 1,592
Entergy Corp.		
0.800% due 07/15/2013	500	500
Ford Motor Credit Co. LLC		
1.021% due 11/01/2013	2,200	2,193
1.021% due 11/08/2013	3,500	3,488
1.021% due 11/12/2013	2,100	2,092
1.021% due 12/20/2013	6,800	6,768
Santander S.A.		
2.370% due 01/02/2014	3,700	3,673
Vodafone Group PLC		
0.700% due 02/10/2014	5,000	4,984
		25,290
REPURCHASE AGREEMENTS (g) 0.2%		
		4,045
MEXICO TREASURY BILLS 1.6%		
3.885% due 07/18/2013 - 09/19/2013 (c)	MXN 463,700	35,550
U.S. TREASURY BILLS 0.1%		
0.024% due 08/08/2013 - 05/01/2014 (c)(h)(k)	$ 2,441	2,441

	SHARES	MARKET VALUE (000S)
CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES (f) 24.8%		
PIMCO Short-Term Floating NAV Portfolio	109	1
PIMCO Short-Term Floating NAV Portfolio III	53,577,544	535,293
		535,294
Total Short-Term Instruments (Cost $643,864)		**642,734**
Total Investments 112.0% (Cost $2,438,474)		**$ 2,420,967**
Written Options (j) (0.2%) (Premiums $1,649)		**(5,365)**
Other Assets and Liabilities (Net) (11.8%)		**(254,973)**
Net Assets 100.0%		**$ 2,160,629**

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) Principal only security.

(b) Security did not produce income within the last twelve months.

(c) Coupon represents a weighted average yield to maturity.

(d) Principal amount of security is adjusted for inflation.

(e) Perpetual maturity, date shown represents next contractual call date.

(f) Affiliated to the Portfolio.

BORROWINGS AND OTHER FINANCING TRANSACTIONS

(g) Repurchase Agreements:

Counterparty	Lending Rate	Settlement Date	Maturity Date	Principal Amount	Collateralized By	Collateral (Received), At Value	Repurchase Agreements, At Value	Repurchase Proceeds [1]
BOA	0.140%	06/28/2013	07/01/2013	$ 500	U.S. Treasury Bonds 2.750% due 08/15/2042	$ (521)	$ 500	$ 500
SSB	0.010%	06/28/2013	07/01/2013	3,545	Fannie Mae 2.200% due 10/17/2022	(3,620)	3,545	3,545
						$ (4,141)	$ 4,045	$ 4,045

[1] Includes accrued interest.

As of June 30, 2013, there were no open reverse repurchase agreements or sale-buyback transactions. The average amount of borrowings while outstanding during the period ended June 30, 2013 was $4,963 at a weighted average interest rate of (0.184%).

Short Sales:

Description	Coupon	Maturity Date	Principal Amount	Proceeds	Market Value
Fannie Mae	4.000%	07/01/2043	$ 35,000	$ 36,528	$ (36,460)
Fannie Mae	6.000%	07/01/2043	20,000	21,759	(21,741)
Freddie Mac	5.000%	07/01/2043	2,000	2,140	(2,135)
				$ 60,427	$ (60,336)

Collateral (Received)/Pledged for Borrowings and Other Financing Transactions

The following is a summary by counterparty of the market value of Borrowings and Other Financing Transactions and collateral (received)/pledged as of June 30, 2013:

(h) Securities with an aggregate market value of $991 have been pledged as collateral under the terms of the following master agreements as of June 30, 2013.

Counterparty	Total Market Value	Collateral (Received)/Pledged	Net Exposures [2]
Global/Master Repurchase Agreement			
BOA	$ 500	$ (521)	$ (21)
SSB	3,545	(3,620)	(75)
Master Securities Forward Transactions Agreement			
BCY	0	(20)	(20)
DEU	(2,135)	0	(2,135)
FOB	(21,741)	681	(21,060)
GRE	0	310	310
JPS	(15,626)	0	(15,626)
MSC	0	(116)	(116)
SAL	(20,834)	(290)	(21,124)

[2] Net Exposures represents the net receivable/(payable) that would be due from/to the counterparty(ies) in the event of default and are not disclosed as assets or liabilities in the Statement of Assets and Liabilities. Exposure from borrowings and other financing transactions can only be netted across transactions governed under the same master agreement with the same legal entity. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

EXCHANGE-TRADED OR CENTRALLY CLEARED FINANCIAL DERIVATIVE INSTRUMENTS

Futures Contracts:

Description	Type	Expiration Month	# of Contracts	Unrealized Appreciation/ (Depreciation)
3-Month Euribor December Futures	Long	12/2014	27	$ 3
3-Month Euribor June Futures	Long	06/2015	8	(7)
3-Month Euribor March Futures	Long	03/2015	10	(7)
90-Day Eurodollar December Futures	Long	12/2015	2,550	(4,138)
90-Day Eurodollar June Futures	Long	06/2015	667	(354)
90-Day Eurodollar March Futures	Long	03/2016	315	(514)
90-Day Eurodollar September Futures	Long	09/2014	3	0
				$ (5,017)

Centrally Cleared Swap Agreements:

Interest Rate Swaps

Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Market Value	Unrealized Appreciation/ (Depreciation)
Pay	3-Month USD-LIBOR	1.500%	03/18/2016	$ 343,100	$ 1,198	$ (1,253)
Receive	3-Month USD-LIBOR	2.750%	06/19/2043	12,300	1,685	948
					$ 2,883	$ (305)

Exchange-Traded or Centrally Cleared Financial Derivative Instruments Summary

The following is a summary by counterparty of the market value of Exchange-Traded or Centrally Cleared Financial Derivative Instruments as of June 30, 2013:

(i) Securities with an aggregate market value of $3,726 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of June 30, 2013.

Counterparty	Total Unrealized Appreciation/ (Depreciation)	Variation Margin Receivable/(Payable) [(1)]
Futures		
GSC	$ (5,003)	$ (25)
JPS	(14)	0
Centrally Cleared Swaps		
FOB	(199)	4
GSC	64	(21)
MSC	(170)	(20)

(1) Variation margin receivable/(payable) represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from exchange-traded or centrally cleared financial derivative instruments can only be netted across transactions on the same exchange or clearing agent as governed under the same master agreement with the same legal entity. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

OTC FINANCIAL DERIVATIVE INSTRUMENTS

Foreign Currency Contracts:

Settlement Month	Currency to be Delivered		Currency to be Received		Counterparty	Unrealized Appreciation	Unrealized (Depreciation)	Net Unrealized Appreciation/ (Depreciation)
07/2013	JPY	49,000	$	503	BRC	$ 9	$ 0	$ 9
07/2013		1,305,529		13,224	UAG	60	0	60
07/2013	MXN	73,085		5,966	JPM	334	0	334
07/2013	MYR	727		234	DUB	5	0	5
07/2013		309		100	HUS	2	0	2
07/2013		309		100	JPM	2	0	2
07/2013		1,395		450	UAG	10	0	10
07/2013	$	3,444	JPY	335,700	BRC	0	(59)	(59)
07/2013		3,755		357,400	JPM	0	(151)	(151)
07/2013		600	MYR	1,826	BRC	0	(24)	(24)
07/2013		300		914	FBF	0	(12)	(12)
08/2013	BRL	2,074	$	943	HUS	20	0	20
08/2013		2,769		1,255	MSC	23	0	23
08/2013	IDR	3,968,200		401	HUS	11	0	11
08/2013	MXN	174,524		14,106	MSC	698	0	698
08/2013	$	8,497	BRL	17,265	UAG	0	(814)	(814)
08/2013		100	IDR	992,200	FBF	0	(3)	(3)
08/2013		300		2,976,000	JPM	0	(8)	(8)
09/2013	CAD	22,517	$	22,089	RBC	722	0	722
09/2013	EUR	17,900		22,490	BOA	0	(816)	(816)
09/2013		19,592		26,059	BRC	548	0	548
09/2013		22		29	DUB	0	0	0
09/2013	GBP	5,037		7,825	BPS	168	0	168
09/2013	MXN	3,990		301	BOA	0	(5)	(5)
09/2013		128,947		9,945	BPS	63	0	63
09/2013		36,265		2,811	BRC	31	0	31
09/2013		13,062		1,007	HUS	14	(8)	6
09/2013		102,434		8,001	JPM	159	(9)	150
09/2013		7,877		598	MSC	2	(7)	(5)
09/2013		400		30	UAG	0	(1)	(1)

Foreign Currency Contracts: (Cont.)

Settlement Month	Currency to be Delivered		Currency to be Received		Counterparty	Unrealized Appreciation	Unrealized (Depreciation)	Net Unrealized Appreciation/ (Depreciation)
09/2013	$	1,046	EUR	787	BRC	$ 0	$ (21)	$ (21)
09/2013		8,471		6,354	CBK	0	(197)	(197)
09/2013		13,612		10,163	FBF	0	(379)	(379)
09/2013		20,762		15,823	HUS	0	(159)	(159)
09/2013		2,360		1,788	MSC	0	(32)	(32)
09/2013		2,557	GBP	1,630	CBK	0	(79)	(79)
09/2013		17,612	MXN	217,459	JPM	0	(945)	(945)
12/2013	EUR	17,600	$	22,215	BOA	0	(713)	(713)
01/2014		6,800		8,584	BPS	0	(276)	(276)
04/2014		300		380	CBK	0	(11)	(11)
05/2014		6,700		8,472	BPS	0	(266)	(266)
06/2014		500		634	FBF	0	(18)	(18)
						$ 2,881	$ (5,013)	$ (2,132)

(j) Written Options:

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	BOA	6-Month EUR-EURIBOR	Receive	0.400%	03/12/2014	EUR	11,000	$ 20	$ (13)
Put - OTC 1-Year Interest Rate Swap	BOA	6-Month EUR-EURIBOR	Pay	0.400%	03/12/2014		11,000	24	(31)
Call - OTC 1-Year Interest Rate Swap	BRC	6-Month EUR-EURIBOR	Receive	0.400%	03/12/2014		2,700	5	(3)
Put - OTC 1-Year Interest Rate Swap	BRC	6-Month EUR-EURIBOR	Pay	0.400%	03/12/2014		2,700	6	(7)
Call - OTC 1-Year Interest Rate Swap	GLM	6-Month EUR-EURIBOR	Receive	0.400%	03/12/2014		2,700	6	(3)
Put - OTC 1-Year Interest Rate Swap	GLM	6-Month EUR-EURIBOR	Pay	0.400%	03/12/2014		2,700	6	(7)
Call - OTC 5-Year Interest Rate Swap	BOA	3-Month USD-LIBOR	Receive	0.750%	09/03/2013	$	133,600	85	(4)
Put - OTC 5-Year Interest Rate Swap	BOA	3-Month USD-LIBOR	Pay	1.250%	09/03/2013		133,600	334	(2,915)
Put - OTC 5-Year Interest Rate Swap	GLM	3-Month USD-LIBOR	Pay	1.500%	10/28/2013		41,400	126	(745)
Call - OTC 5-Year Interest Rate Swap	JPM	3-Month USD-LIBOR	Receive	1.000%	09/03/2013		63,800	64	(12)
Put - OTC 5-Year Interest Rate Swap	JPM	3-Month USD-LIBOR	Pay	1.450%	09/03/2013		63,800	271	(917)
Put - OTC 5-Year Interest Rate Swap	MYC	3-Month USD-LIBOR	Pay	1.450%	09/03/2013		29,700	151	(427)
Put - OTC 5-Year Interest Rate Swap	BRC	6-Month EUR-EURIBOR	Pay	1.700%	07/24/2013	EUR	31,900	170	(18)
Put - OTC 5-Year Interest Rate Swap	DUB	6-Month EUR-EURIBOR	Pay	1.700%	07/24/2013		14,800	79	(8)
Put - OTC 5-Year Interest Rate Swap	RYL	6-Month EUR-EURIBOR	Pay	1.700%	07/24/2013		21,300	126	(12)
Call - OTC 10-Year Interest Rate Swap	BOA	3-Month USD-LIBOR	Receive	1.800%	07/29/2013	$	15,900	48	0
Put - OTC 10-Year Interest Rate Swap	BOA	3-Month USD-LIBOR	Pay	2.650%	07/29/2013		15,900	114	(242)
								$ 1,635	$ (5,364)

Foreign Currency Options

Description	Counterparty	Exercise Price	Expiration Date	Notional Amount	Premium	Market Value
Put - OTC USD versus JPY	BPS	JPY 95.000	07/05/2013	$ 2,300	$ 14	$ (1)

Transactions in written call and put options for the period ended June 30, 2013:

	Notional Amount in $	Notional Amount in EUR	Premium
Balance at 12/31/2012	$ 719,500	EUR 44,200	$ 2,465
Sales	659,500	100,800	1,977
Closing Buys	0	0	0
Expirations	(872,200)	(44,200)	(2,759)
Exercised	(6,800)	0	(34)
Balance at 06/30/2013	$ 500,000	EUR 100,800	$ 1,649

OTC Swap Agreements:

Credit Default Swaps on Corporate, Sovereign and U.S. Treasury Obligation Issues - Sell Protection (1)

Reference Entity	Counterparty	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2013 (2)	Notional Amount (3)	Market Value	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)
Berkshire Hathaway Finance Corp.	BOA	1.000%	03/20/2016	0.638%	$ 1,100	$ 11	$ (14)	$ 25
Berkshire Hathaway Finance Corp.	BRC	1.000%	12/20/2013	0.238%	900	3	5	(2)
Brazil Government International Bond	BRC	1.000%	09/20/2015	1.295%	5,100	(32)	(40)	8
Brazil Government International Bond	CBK	1.000%	09/20/2015	1.295%	1,000	(6)	(16)	10

Credit Default Swaps on Corporate, Sovereign and U.S. Treasury Obligation Issues - Sell Protection (1) (Cont.)

Reference Entity	Counterparty	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2013 (2)	Notional Amount (3)	Market Value	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)
Brazil Government International Bond	CBK	1.000%	06/20/2016	1.440%	$ 27,000	$ (338)	$ (52)	$ (286)
Brazil Government International Bond	HUS	1.000%	09/20/2015	1.295%	1,000	(6)	(10)	4
Brazil Government International Bond	HUS	1.000%	03/20/2016	1.400%	1,200	(12)	(6)	(6)
Brazil Government International Bond	JPM	1.000%	09/20/2015	1.295%	400	(2)	(4)	2
Brazil Government International Bond	UAG	1.000%	09/20/2015	1.295%	500	(3)	(5)	2
Export-Import Bank of China	DUB	1.000%	12/20/2016	0.982%	2,300	2	(186)	188
Export-Import Bank of Korea	DUB	1.000%	12/20/2016	0.593%	1,000	14	(64)	78
General Electric Capital Corp.	CBK	4.000%	12/20/2013	0.318%	2,200	42	0	42
General Electric Capital Corp.	CBK	4.325%	12/20/2013	0.318%	1,600	33	0	33
General Electric Capital Corp.	DUB	4.230%	12/20/2013	0.318%	2,400	49	0	49
General Electric Capital Corp.	DUB	4.900%	12/20/2013	0.318%	1,900	45	0	45
General Electric Capital Corp.	DUB	1.000%	03/20/2016	0.709%	100	1	(6)	7
General Electric Capital Corp.	JPM	1.000%	03/20/2014	0.310%	1,000	5	(29)	34
General Electric Capital Corp.	MYC	1.000%	06/20/2016	0.766%	200	1	(1)	2
MetLife, Inc.	CBK	1.000%	12/20/2014	0.412%	8,200	74	(217)	291
MetLife, Inc.	FBF	1.000%	12/20/2014	0.412%	1,300	12	(20)	32
Mexico Government International Bond	BRC	1.000%	09/20/2015	0.789%	5,100	26	(39)	65
Mexico Government International Bond	BRC	1.000%	06/20/2017	1.078%	500	(1)	(7)	6
Mexico Government International Bond	BRC	1.000%	03/20/2018	1.232%	4,300	(44)	(7)	(37)
Mexico Government International Bond	DUB	1.000%	03/20/2016	0.880%	3,200	12	(18)	30
Mexico Government International Bond	DUB	1.000%	06/20/2016	0.914%	7,900	21	19	2
Mexico Government International Bond	DUB	1.000%	03/20/2018	1.232%	100	(1)	0	(1)
U.S. Treasury Notes	BPS	0.250%	09/20/2016	0.149%	EUR 6,500	27	(124)	151
						$ (67)	$ (841)	$ 774

Credit Default Swaps on Credit Indices - Sell Protection (1)

Index/Tranches	Counterparty	Fixed Deal Receive Rate	Maturity Date	Notional Amount (3)	Market Value (4)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)
CDX.EM-12 5-Year Index	BRC	5.000%	12/20/2014	$ 1,900	$ 31	$ 190	$ (159)
CDX.EM-12 5-Year Index	UAG	5.000%	12/20/2014	1,000	16	100	(84)
CDX.EM-13 5-Year Index	BRC	5.000%	06/20/2015	8,900	246	1,032	(786)
CDX.EM-13 5-Year Index	GST	5.000%	06/20/2015	400	11	50	(39)
CDX.EM-13 5-Year Index	HUS	5.000%	06/20/2015	6,100	168	678	(510)
CDX.EM-13 5-Year Index	JPM	5.000%	06/20/2015	500	13	56	(43)
CDX.EM-13 5-Year Index	MYC	5.000%	06/20/2015	8,300	229	966	(737)
CDX.IG-9 10-Year Index 30-100%	GST	0.548%	12/20/2017	193	3	0	3
CDX.IG-9 10-Year Index 30-100%	JPM	0.553%	12/20/2017	386	6	0	6
					$ 723	$ 3,072	$ (2,349)

(1) 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.

(2) 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.

(3) 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.

(4) 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/ (Depreciation)
Pay	1-Year BRL-CDI	8.900%	01/02/2017	UAG	BRL 16,400	$ (304)	$ 11	$ (315)
Pay	1-Year BRL-CDI	8.950%	01/02/2017	HUS	300	(6)	0	(6)
Pay	1-Year BRL-CDI	9.120%	01/02/2017	BPS	9,100	(153)	23	(176)
Pay	1-Year BRL-CDI	9.130%	01/02/2017	DUB	2,000	(33)	7	(40)
Pay	1-Year BRL-CDI	9.140%	01/02/2017	MYC	4,500	(75)	12	(87)
Pay	28-Day MXN-TIIE	5.000%	09/13/2017	BRC	MXN 2,500	(4)	(2)	(2)
Pay	28-Day MXN-TIIE	5.000%	09/13/2017	HUS	7,500	(10)	(5)	(5)

 See Accompanying Notes

Interest Rate Swaps (Cont.)

Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Counterparty	Notional Amount	Market Value	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)
Pay	28-Day MXN-TIIE	5.500%	09/13/2017	BOA	MXN 99,000	$ 16	$ (29)	$ 45
Pay	28-Day MXN-TIIE	5.500%	09/13/2017	BRC	54,000	9	(16)	25
Pay	28-Day MXN-TIIE	5.500%	09/13/2017	GLM	30,000	5	(6)	11
Pay	28-Day MXN-TIIE	5.500%	09/13/2017	HUS	80,300	13	(7)	20
Pay	28-Day MXN-TIIE	5.500%	09/13/2017	MYC	30,000	5	2	3
						$ (537)	$ (10)	$ (527)

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, 2013:

(k) Securities with an aggregate market value of $10,006 have been pledged as collateral for OTC swap agreements and foreign currency contracts as governed by International Swaps and Derivatives Association, Inc. master agreements as of June 30, 2013.

Counterparty	Total Market Value of OTC Derivatives	Collateral (Received)/Pledged	Net Exposures [5]
BOA	$ (4,712)	$ 4,789	$ 77
BPS	(438)	505	67
BRC	690	(600)	90
CBK	(482)	570	88
DUB	107	0	107
FBF	(400)	365	(35)
GLM	(750)	758	8
GST	14	(180)	(166)
HUS	27	0	27
JPM	(1,525)	1,476	(49)
MSC	684	(1,253)	(569)
MYC	(267)	352	85
RBC	722	(670)	52
RYL	(12)	37	25
UAG	(1,036)	989	(47)

[5] Net Exposures represents the net receivable/(payable) that would be due from/to the counterparty(ies) in the event of default and are not disclosed as assets or liabilities in the Statement of Assets and Liabilities. See note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

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, 2013:

	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	$ 7	$ 7
Unrealized appreciation on foreign currency contracts	0	0	0	2,881	0	2,881
Unrealized appreciation on OTC swap agreements	0	1,115	0	0	104	1,219
	$ 0	$ 1,115	$ 0	$ 2,881	$ 111	$ 4,107
Liabilities:						
Written options outstanding	$ 0	$ 0	$ 0	$ 1	$ 5,364	$ 5,365
Variation margin payable on financial derivative instruments [2]	0	0	0	0	69	69
Unrealized depreciation on foreign currency contracts	0	0	0	5,013	0	5,013
Unrealized depreciation on OTC swap agreements	0	2,690	0	0	631	3,321
	$ 0	$ 2,690	$ 0	$ 5,014	$ 6,064	$ 13,768

The Effect of Financial Derivative Instruments on the Statement of Operations for the Period Ended June 30, 2013:

	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:						
Net realized (loss) on futures contracts	$ 0	$ 0	$ 0	$ 0	$ (1)	$ (1)
Net realized gain on written options	0	0	0	75	2,683	2,758
Net realized gain on swaps	0	3,220	0	0	987	4,207
Net realized (loss) on foreign currency transactions	0	0	0	(507)	0	(507)
	$ 0	$ 3,220	$ 0	$ (432)	$ 3,669	$ 6,457
Net Change in Unrealized Appreciation (Depreciation) on Derivatives:						
Net change in unrealized (depreciation) on futures contracts	$ 0	$ 0	$ 0	$ 0	$ (5,089)	$ (5,089)
Net change in unrealized appreciation (depreciation) on written options	0	0	0	13	(5,216)	(5,203)
Net change in unrealized (depreciation) on swaps	0	(4,762)	0	0	(1,802)	(6,564)
Net change in unrealized appreciation on translation of assets and liabilities denominated in foreign currencies	0	0	0	3,906	0	3,906
	$ 0	$ (4,762)	$ 0	$ 3,919	$ (12,107)	$ (12,950)

(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 $(5,017) and open centrally cleared swaps cumulative appreciation/(depreciation) of $(305) as reported in the Notes to Schedule of Investments.

FAIR VALUE MEASUREMENTS (1)

The following is a summary of the fair valuations according to the inputs used as of June 30, 2013 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2013
Investments, at value				
Bank Loan Obligations	$ 0	$ 27,846	$ 0	$ 27,846
Corporate Bonds & Notes				
Banking & Finance	0	270,666	5,304	275,970
Industrials	0	59,953	0	59,953
Utilities	0	18,593	0	18,593
Municipal Bonds & Notes				
Alabama	0	6,781	0	6,781
California	0	2,845	0	2,845
New York	0	14,813	0	14,813
Pennsylvania	0	9,392	0	9,392
Texas	0	478	0	478
U.S. Government Agencies	0	853,289	2	853,291
U.S. Treasury Obligations	0	152,731	0	152,731
Mortgage-Backed Securities	0	109,579	6,024	115,603
Asset-Backed Securities	0	137,480	3,335	140,815
Sovereign Issues	0	87,337	0	87,337
Convertible Preferred Securities				
Banking & Finance	6,523	0	0	6,523
Industrials	0	0	0	0
Preferred Securities				
Banking & Finance	0	2,290	2,972	5,262
Short-Term Instruments				
Certificates of Deposit	0	40,114	0	40,114
Commercial Paper	0	25,290	0	25,290
Repurchase Agreements	0	4,045	0	4,045
Mexico Treasury Bills	$ 0	$ 35,550	$ 0	$ 35,550
U.S. Treasury Bills	0	2,441	0	2,441
Central Funds Used for Cash Management Purposes	535,294	0	0	535,294
	$ 541,817	$ 1,861,513	$ 17,637	$ 2,420,967
Short Sales, at value				
U.S. Government Agencies	$ 0	$ (60,336)	$ 0	$ (60,336)
Financial Derivative Instruments - Assets				
Credit Contracts	0	1,115	0	1,115
Foreign Exchange Contracts	0	2,881	0	2,881
Interest Rate Contracts	3	1,052	0	1,055
	$ 3	$ 5,048	$ 0	$ 5,051
Financial Derivative Instruments - Liabilities				
Credit Contracts	0	(2,690)	0	(2,690)
Foreign Exchange Contracts	0	(5,014)	0	(5,014)
Interest Rate Contracts	(5,020)	(7,248)	0	(12,268)
	$ (5,020)	$ (14,952)	$ 0	$ (19,972)
Totals	$ 536,800	$ 1,791,273	$ 17,637	$ 2,345,710

There were assets and liabilities valued at $6,523 transferred from Level 2 to Level 1 during the period ended June 30, 2013.

The following is a reconciliation of the fair valuations using significant unobservable inputs (Level 3) for the Portfolio during the period ended June 30, 2013:

Category and Subcategory	Beginning Balance at 12/31/2012	Net Purchases	Net Sales	Accrued Discounts/ (Premiums)	Realized Gain/(Loss)	Net Change in Unrealized Appreciation/ (Depreciation) [2]	Transfers into Level 3	Transfers out of Level 3	Ending Balance at 06/30/2013	Net Change in Unrealized Appreciation/ (Depreciation) on Investments Held at 06/30/2013 [2]
Investments, at value										
Corporate Bonds & Notes										
Banking & Finance	$ 2,021	$ 3,463	$ (100)	$ 0	$ 0	$ (80)	$ 0	$ 0	$ 5,304	$ (79)
U.S. Government Agencies	2	0	0	0	0	0	0	0	2	0
Mortgage-Backed Securities	0	6,132	(59)	(1)	0	(48)	0	0	6,024	(48)
Asset-Backed Securities	3,732	0	(403)	0	0	6	0	0	3,335	14
Convertible Preferred Securities										
Industrials	0	0	0	0	0	0	0	0	0	0
Preferred Securities										
Banking & Finance	3,084	0	0	0	0	(112)	0	0	2,972	(112)
Totals	$ 8,839	$ 9,595	$ (562)	$ (1)	$ 0	$ (234)	$ 0	$ 0	$ 17,637	$ (225)

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 06/30/2013	Valuation Technique	Unobservable Inputs	Input Value(s) (% Unless Noted Otherwise)
Investments, at value				
Corporate Bonds & Notes				
Banking & Finance	$ 1,870	Benchmark Pricing	Base Price	100.82
	3,434	Third Party Vendor	Broker Quote	98.12
U.S. Government Agencies	2	Benchmark Pricing	Base Price	97.88
Mortgage-Backed Securities	6,024	Benchmark Pricing	Base Price	100.00-111.50
Asset-Backed Securities	3,335	Third Party Vendor	Broker Quote	102.42
Convertible Preferred Securities				
Industrials	0	Other Valuation Techniques [3]	—	—
Preferred Securities				
Banking & Finance	2,972	Benchmark Pricing	Base Price	$ 7,183.47
Total	$ 17,637			

(1) See note 3 in the Notes to Financial Statements for more information regarding pricing inputs, valuation techniques and transfers.

(2) Any difference between Net Change in Unrealized Appreciation/(Depreciation) and Net Change in Unrealized Appreciation/(Depreciation) on Investments Held at June 30, 2013 may be due to an investment no longer held or categorized as level 3 at period end.

(3) Includes valuation techniques not defined in the Notes to Financial Statements as securities valued using such techniques are not considered significant to the Portfolio.

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 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. For convertible securities, premiums attributable to the conversion feature are not amortized. 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) Foreign Currency Translation 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. 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. The Portfolio does not separately report the effects of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and net changes in unrealized gain or loss from investments on the Statements 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 are included in net realized gain or loss on foreign currency transactions on the Statements of Operations. 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 are included in net change in unrealized appreciation or depreciation on translation of assets and liabilities denominated in foreign currencies on the Statements of Operations.

(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 cause timing differences between income and capital gain recognition. 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 (loss) and realized gains (losses) 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 Pronouncements In December 2011, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") to enhance disclosures about financial instruments and derivative instruments that are subject to offsetting ("netting") on the Statements 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. The financial statements have been modified to provide enhanced quantitative and qualitative disclosures surrounding counterparty exposure and master netting arrangements. See the Notes to Schedule of Investments and the Principal Risks Note in the Notes to Financial Statements for additional details.

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 or liabilities categorized as Level 1 or 2 as of period end 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 2 to Level 1 are 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 transfers between Levels 1 and 2 and transfers in and out of Level 3, if any, are disclosed in the Notes to 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 transfers between Levels of the 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 or liabilities 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 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-buyback 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, exchange-traded notes 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 and repurchase agreements are generally valued at amortized cost which approximates fair market value. These investments are categorized as Level 2 of the fair value hierarchy.

Equity exchange-traded options and 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 by independent pricing service providers. Depending on the product and the terms of the transaction, financial derivative instruments can be valued 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 liabilities 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. Broker quotes 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. These loans may include participations in "bridge loans", which are loans taken out by borrowers for a short period (typically less than one year) pending arrangement of more permanent financing through, for example, the issuance of bonds, frequently high yield bonds issued for the purpose of acquisitions. 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, 2013, 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.

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 will otherwise cover its obligations under sale-buyback transactions.

(c) 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 executed.

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.

(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 asset, credit default, cross-currency, interest rate, total return, variance 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 instruments 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 Schedule of Investments. They 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, 2013 for which the Portfolio is the seller of protection are disclosed in the Notes to 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, equity and commodity 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 to 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.

Master Netting Arrangements The Portfolio is subject to various Master Agreements, or netting arrangements, with select counterparties. Master Agreements govern the terms of certain transactions, and reduce the counterparty risk associated with relevant transactions by specifying credit protection mechanisms and providing standardization that improves legal certainty. Since different types of 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 or sovereign securities may be used. Securities and cash pledged as collateral are reflected as assets in the Statement of Assets and Liabilities as either a component of Investments at value (securities) or Deposits due from Counterparties (cash). Cash collateral received is not typically held in a segregated account and as such is reflected as a liability in Statement of Assets and Liabilities as Deposits due to Counterparties. The market value of any securities received as collateral are not reflected as a component of net asset value. 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 and Global Master Repurchase Agreements (individually and collectively "Master Repo Agreements") govern repurchase, reverse repurchase, and sale-buyback transactions between the Portfolio and select counterparties. Master Repo Agreements maintain provisions for, among other things, initiation, income payments, events of default, and maintenance of collateral. The market value of transactions under the Master Repo Agreement, collateral pledged or received, and the net exposure by counterparty as of period end are disclosed in the Notes to Schedule of Investments.

Master Securities Forward Transaction Agreements ("Master Forward Agreements") govern the considerations and factors surrounding the settlement of certain forward settling transactions, such as To-Be-Announced securities, delayed-delivery or sale-buyback 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. The market value of forward settling transactions, collateral pledged or received, and the net exposure by counterparty as of period end is disclosed in the Notes to Schedule of Investments.

Customer Account Agreements and related addendums govern cleared derivatives transactions such as futures, options on futures, and cleared OTC derivatives. Cleared derivative transactions require posting of initial margin as determined by each relevant clearing agency and is segregated at a broker account registered with the Commodities Futures Trading Commission (CFTC), or the applicable regulator. In the US, counterparty risk is significantly reduced as creditors of the futures broker do not have claim to portfolio assets in the segregated account. Additionally, portability of exposure in the event of default further reduces risk to the portfolios. Variation margin, or daily changes in market value, are exchanged daily, but may not be netted between futures and cleared OTC derivatives. The market value or accumulated unrealized appreciation or depreciation, initial margin posted, and any unsettled variation margin as of period end is disclosed in the Notes to Schedule of Investments.

International Swaps and Derivatives Association, Inc. Master Agreements and Credit Support Annexes ("ISDA Master Agreements") govern OTC financial derivative transactions entered into by the Portfolio and select counterparties. 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. In limited circumstances, the ISDA Master Agreement may contain additional provisions that add additional counterparty protection beyond coverage of existing daily exposure if the counterparty has a decline in credit quality below a predefined level. These amounts, if any, may be segregated with a third party custodian. The market value of OTC financial derivative instruments, collateral received or pledged and net exposure by counterparty as of period end, is disclosed in the Notes to 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; (vii) organization expenses and (viii) 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, will receive an annual retainer of $35,000, plus $3,600 for each Board of Trustees meeting attended in person, $750 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 $5,000 and each other committee chair will receive an additional annual retainer of $1,500.

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, 2013, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 of the Act (amounts in thousands):

Purchases	Sales
$ 11,878	$ 5,115

The Portfolio may invest in the PIMCO Short-Term Floating NAV Portfolio and PIMCO Short-Term Floating NAV Portfolio III ("Central Funds") to the extent permitted by the Act and rules thereunder. The Central Funds 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 Central Funds are money market instruments and short maturity fixed income instruments. The Central Funds may incur expenses related to their investment activities, but do not pay Investment Advisory or Supervisory and Administrative Fees to PIMCO. The Central Funds are considered to be affiliated with the Portfolio. The table below shows the Portfolio's transactions in and earnings from investments in the Central Funds for the period ended June 30, 2013 (amounts in thousands):

Investments in PIMCO Short-Term Floating NAV Portfolio

Market Value 12/31/2012	Purchases at Cost	Proceeds from Sales	Net Realized Gain/(Loss)	Change in Unrealized Appreciation/ (Depreciation)	Market Value 06/30/2013	Dividend Income	Net Capital Gain Distributions
$ 1	$ 0	$ 0	$ 0	$ 0	$ 1	$ 0	$ 0

Investments in PIMCO Short-Term Floating NAV Portfolio III

Market Value 12/31/2012	Purchases at Cost	Proceeds from Sales	Net Realized Gain/(Loss)	Change in Unrealized Appreciation/ (Depreciation)	Market Value 06/30/2013	Dividend Income	Net Capital Gain Distributions
$ 109,664	$ 604,562	$ (178,800)	$ (27)	$ (106)	$ 535,293	$ 462	$ 0

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 have 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, 2013, were as follows (amounts in thousands):

U.S. Government/Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 2,849,077	$ 2,972,084	$ 230,434	$ 360,646

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 06/30/2013		Year Ended 12/31/2012	
	Shares	Amount	Shares	Amount
Receipts for shares sold				
Institutional Class	684	$ 7,360	1,461	$ 15,525
Administrative Class	18,053	193,721	42,603	453,976
Advisor Class	11,260	120,488	22,060	233,999
Issued as reinvestment of distributions				
Institutional Class	51	546	114	1,203
Administrative Class	1,224	13,131	2,487	26,451
Advisor Class	427	4,580	795	8,460
Cost of shares redeemed				
Institutional Class	(365)	(3,930)	(2,620)	(27,778)
Administrative Class	(17,279)	(185,345)	(31,226)	(331,009)
Advisor Class	(4,698)	(50,245)	(10,877)	(115,656)
Net increase resulting from Portfolio share transactions	9,357	$ 100,306	24,797	$ 265,171

As of June 30, 2013, three 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, 2013, 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 segregated 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, 2013, 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	Aggregate Gross Unrealized Appreciation	Aggregate Gross Unrealized (Depreciation)	Net Unrealized (Depreciation) [1]
$ 2,439,293	$ 15,505	$ (33,831)	$ (18,326)

[1] Primary differences, if any, between book and tax net unrealized appreciation/(depreciation) are attributable to wash sale loss deferrals for federal income tax purposes.

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.	**GRE**	RBS Securities, Inc.	**RBC**	Royal Bank of Canada
BRC	Barclays Bank PLC	**GSC**	Goldman Sachs & Co.	**RYL**	Royal Bank of Scotland Group PLC
CBK	Citibank N.A.	**GST**	Goldman Sachs International	**SAL**	Citigroup Global Markets, Inc.
DEU	Deutsche Bank Securities, Inc.	**HUS**	HSBC Bank USA N.A.	**SSB**	State Street Bank and Trust Co.
DUB	Deutsche Bank AG	**JPM**	JPMorgan Chase Bank N.A.	**UAG**	UBS AG Stamford
FBF	Credit Suisse International	**JPS**	JPMorgan Securities, Inc.		

Currency Abbreviations:

BRL	Brazilian Real	**GBP**	British Pound	**MXN**	Mexican Peso
CAD	Canadian Dollar	**IDR**	Indonesian Rupiah	**MYR**	Malaysian Ringgit
EUR	Euro	**JPY**	Japanese Yen	**USD**	United States Dollar

Exchange Abbreviations:

OTC	Over-the-Counter

Index Abbreviations:

CDX.EM	Credit Derivatives Index - Emerging Markets	**CDX.IG**	Credit Derivatives Index - Investment Grade

Other Abbreviations:

ALT	Alternate Loan Trust	**CLO**	Collateralized Loan Obligation	**LIBOR**	London Interbank Offered Rate
CDI	Brazil Interbank Deposit Rate	**EURIBOR**	Euro Interbank Offered Rate	**TIIE**	Tasa de Interés Interbancaria de Equilibrio
CDO	Collateralized Debt Obligation	**FDIC**	Federal Deposit Insurance Corp.		

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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 & Trust Company
801 Pennsylvania
Kansas City, MO 64105

Transfer Agent

Boston Financial Data Services
330 W. 9th Street, 5th Floor
Kansas City, MO 64105

Legal Counsel

Dechert LLP
1900 K Street, N.W.
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

PVIT47SAR_063013

JUNE 30, 2013

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

*Not part of the semiannual report. Retain for your records.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

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.

SUPPLEMENT DATED MAY 15, 2013
TO THE STATEMENT OF ADDITIONAL INFORMATION
DATED MAY 1, 2013
FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST

The Statement of Additional Information is amended as follows:

The following "Independent Board Members" table on page 63 has been revised as follows:

Independent Board Members

Name of Board Member	Dollar Range of Equity Securities in Each Fund	Aggregate Dollar Range of Equity Securities in All Funds Overseen by the Board Member in the Franklin Templeton Fund Complex
Harris J. Ashton	None	Over $100,000
Sam Ginn	None	Over $100,000
Edith E. Holiday	None	Over $100,000
J. Michael Luttig	None	Over $100,000
Frank A. Olson	None	Over $100,000
Larry D. Thompson	Developing Markets Securities $10,001 – $50,000 Flex Cap Growth $50,001 – $100,000 Foreign Securities $10,001 – $50,000 Global Bond Securities Over $100,000 Income Securities Over $100,000 Small Cap Value $10,001 – $50,000 Small Mid-Cap Growth $50,001 – $100,000 Strategic Income Securities $50,001 – $100,000 Mutual Global Discovery $10,001 – $50,000 Mutual Shares Securities Over $100,000	Over $100,000
John B. Wilson	None	Over $100,000

Please keep this supplement for future reference.

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Supplement Dated June 13, 2013
to the Statement of Additional Information
Dated May 1, 2013
of
Franklin Templeton Variable Insurance Products Trust

The Statement of Additional Information is amended as follows:

Effective June 13, 2013, Charles B. Johnson has retired as chairman, director/trustee and officer of certain US-registered Franklin and Templeton funds (the "FT funds"). In addition, effective June 13, 2013, Rupert H. Johnson, Jr., director/trustee and vice president of certain FT funds, was appointed: to the boards of the FT funds for which he was not already a director/trustee, and was also appointed as chairman of the board for the FT funds. Gregory E. Johnson, director/trustee of certain FT funds, was appointed to the boards of the FT funds for which he was not already a director/trustee. Accordingly, the "Officers and Trustees – Interested Board Members and Officers" section has been revised as follows:

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
**Gregory E. Johnson (1961) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since June 2013	145	None

Principal Occupation During at Least the Past 5 Years:

Chairman of the Board, Member – Office of the Chairman, Director, President and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 45 of the investment companies in Franklin Templeton Investments; and Chairman, Investment Company Institute.

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
***Rupert H. Johnson, Jr. (1940) One Franklin Parkway San Mateo, CA 94403-1906	Chairman of the Board and Trustee	Chairman of the Board since June 2013 and Trustee since 1988	135	None

Principal Occupation During at Least the Past 5 Years:

Vice Chairman, Member – Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 42 of the investment companies in Franklin Templeton Investments.

Note 1: Rupert H. Johnson, Jr. is the uncle of Gregory E. Johnson.

Note 3: Effective June 13, 2013, Charles B. Johnson ceased to be a trustee of the Trust.

**Gregory E. Johnson is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director of Franklin Resources, Inc., which is the parent company of the Fund's investment manager and distributor.

***Rupert H. Johnson, Jr. is considered to be interested person of the Fund under the federal securities laws due to his position as officer and director and major shareholder of Franklin Resources, Inc., which is the parent company of the Fund's investment manager and distributor.

Please keep this supplement for future reference.

SUPPLEMENT DATED JULY 25, 2013
TO THE STATEMENT OF ADDITIONAL INFORMATION
DATED MAY 1, 2013
OF
FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST

The Statement of Additional Information is amended as follows:

I. For the Templeton Developing Markets Securities Fund, the section entitled *"The Funds – Goals, Additional Strategies and Risks – Other Investments and Strategies"* on page 10 is amended to reflect that the Fund may invest up to 10% of its net assets in participatory notes.

II. In the section entitled *"The Underwriter,"* text on page 89 under the heading *"Dealer Compensation"* is revised to read as follows:

Dealer Compensation

In addition to the payments above, Distributors and/or its affiliates may make the following payments out of its own assets to certain dealers who sell shares of Franklin Templeton funds, or participate in the offering of variable insurance products that invest directly or indirectly in the Trust (VIP Qualifying Dealers):

Marketing support payments. Distributors may make payments to VIP Qualifying Dealers out of its own resources. A VIP Qualifying Dealer's marketing support services may include business planning assistance, marketing and advertising, training and ongoing education and support for dealer personnel about the Franklin Templeton funds (including the Trust) and financial planning needs of shareholders of the Franklin Templeton funds or contract owners that allocate contract value indirectly to one or more Franklin Templeton funds, placement on the VIP Qualifying Dealer's list of offered funds, access to sales meetings, sales representatives and management representatives of the dealer, and contract owner assistance in allocating contract value directly or indirectly to the Trust. Distributors compensates VIP Qualifying Dealers differently depending upon, among other factors, whether the VIP Qualifying Dealer is directly selling Franklin Templeton funds, or participating in the offering of variable insurance products that invest directly or indirectly in the Trust, sales and asset levels, redemption rates and the level and/or type of marketing and educational activities provided by the VIP Qualifying Dealer. Such compensation may include financial assistance to such dealers that enable Distributors to develop, manage or participate in and/or present at conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events, and other dealer-sponsored events. These payments may vary depending upon the nature of the event. Distributors will, on an annual basis, determine whether to continue such payments. Currently, Distributors does not make marketing support payments in connection with the Trust except under limited circumstances for one Fund of the Trust offered through a unique product.

Marketing support payments will not exceed 0.20% of the relevant Fund's average daily net assets attributable to an insurance company, on an annual basis.

Other payments. From time to time, Distributors, at its expense, may provide additional compensation to VIP Qualifying Dealers which sell or arrange for the direct or indirect sale of shares of Franklin Templeton funds, including the Trust. Such compensation may include financial assistance to VIP Qualifying Dealers that enable Distributors to participate in and/or present at conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events and other dealer-sponsored events. These payments may vary depending upon the nature of the event.

Distributors routinely sponsors due diligence meetings for registered representatives during which they receive updates on various Franklin Templeton funds and are afforded the opportunity to speak with portfolio managers. Invitation to these meetings is not conditioned on selling a specific number of shares. Those who have shown an interest in Franklin Templeton funds, however, are more likely to be considered. To the extent permitted by their firm's policies and procedures, registered representatives' expenses in attending these meetings may be covered by Distributors.

Other compensation may be offered to the extent not prohibited by federal or state laws or any self-regulatory agency, such as FINRA. Distributors makes payments for events it deems appropriate, subject to Distributors' guidelines and applicable law. Distributors and/or its affiliates may also reimburse VIP Qualifying Dealers and/or their affiliates for certain costs associated with obtaining voting instructions from contract owners and the solicitation process in connection with Trust-sponsored proxy statements.

You can ask your insurance company and VIP Qualifying Dealer for information about any payments they receive from Distributors and any services provided. Additional disclosure may be included in the insurance contract prospectus.

Please keep this supplement for future reference.

SUPPLEMENT DATED JUNE 4, 2013
TO THE STATEMENT OF ADDITIONAL INFORMATION
DATED MAY 1, 2013
OF
FRANKLIN INCOME SECURITIES FUND
FRANKLIN MANAGED VOLATILITY GLOBAL ALLOCATION VIP FUND
FRANKLIN STRATEGIC INCOME FUND
TEMPLETON DEVELOPING MARKETS SECURITIES FUND
TEMPLETON FOREIGN SECURITIES FUND
TEMPLETON GLOBAL BOND SECURITIES FUND
(Series of Franklin Templeton Variable Insurance Products Trust)

The Statement of additional information is amended as follows:

I. For the Franklin Income Securities Fund, the Section entitled ***"The Funds – Goals, Additional Strategies and Risks –** Other Investments and Strategies*" is amended to reflect that the Fund may invest up to 15% of its assets in equity-linked notes.

II. For the Franklin Strategic Income Securities Fund, the Section entitled ***"The Funds – Goals, Additional Strategies and Risks –** Other Investments and Strategies*" is amended to reflect that the Fund may invest in credit default swaps.

III. For the Franklin Strategic Income Securities Fund, the Section entitled ***"The Funds – Goals, Additional Strategies and Risks – Other Investments and Strategies"*** is amended to reflect that the Fund may invest in currency swaps for hedging purposes.

IV. For the Franklin Strategic Income Securities Fund, Franklin Managed Volatility Global Allocation VIP Fund and Templeton Global Bond Securities Fund, the section entitled Section entitled ***"The Funds – Goals, Additional Strategies and Risks –** Other Investments and Strategies*" is amended to reflect that the Fund may invest in inflation indexed swaps.

V. For the Templeton Developing Markets Securities Fund, the section entitled ***"The Funds – Goals, Additional Strategies and Risks –** Other Investments and Strategies*" is amended to reflect that the Fund may invest up to 20% of its net assets in participatory notes.

VI. For the Templeton Foreign Securities Fund, the Section entitled ***"The Funds – Goals, Additional Strategies and Risks –** Other Investments and Strategies*" is amended to reflect that the Fund may invest in exchange traded equity options.

VII. For the Franklin Strategic Income Securities Fund and Templeton Global Bond Securities Fund, the section entitled ***"Glossary of Investments, Techniques, Strategies and Their Risks –** Derivative Instruments – Swap Agreements*" is amended to add the following:

Inflation Index Swaps. An inflation index swap is a contract between two parties, whereby one party makes payments based on the cumulative percentage increase in an index that serves as a measure of inflation (typically, the Consumer Price Index) and the other party makes a regular payment based on a compounded fixed rate. Each party's payment obligation under is determined by reference to a specified "notional" amount of money. Typically, an inflation index swap has payment obligations netted and exchanged upon maturity. The value of an inflation index swap is expected to change in response to changes in the rate of inflation. If inflation increases at a faster rate than anticipated at the time the swap is entered into, the swap will increase in value. Similarly, if inflation increases at a rate slower than anticipated at the time the swap is entered into, the swap will decrease in value.

Risks of Swaps. The use of swap transactions is a highly specialized activity, which involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. Whether the Fund will be successful in using swap agreements to achieve its investment goal depends on the ability of the investment manager correctly to predict which types of investments are likely to produce greater returns. If the investment manager, in using swap agreements, is incorrect in its forecasts of market values, interest rates, inflation, currency exchange rates or other applicable factors, the investment performance of the Fund will be less than its performance would have been if it had not used the swap agreements.

Please keep this supplement for future reference.

This semiannual report for Templeton Developing Markets Securities Fund covers the period ended June 30, 2013.

Performance Summary as of 6/30/13

Templeton Developing Markets Securities Fund – Class 2 had a -7.73% total return for the six-month period ended 6/30/13.

*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. Special risks are associated with foreign investing, including 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 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 had a -9.40% total return, and the Standard & Poor's®/International Finance Corporation Investable Composite Index had a total return of -8.43% 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

The global economy grew moderately during the six months under review, with emerging market economies generally continuing to grow faster than their developed market counterparts. However, emerging market stock performance during the period was driven less by economic growth and more by the liquidity and monetary policies in major economies. Markets began on a positive note in January, but Cyprus's financial crisis in March and its potential impact on the eurozone, as well as an inconclusive Italian election, dampened investor sentiment. A late bailout of Cyprus's banks helped relieve investor concerns. Subsequently, the Bank of Japan's announcement of an unprecedented stimulus plan and its commitment to open-ended asset purchases led investors to become optimistic in April.

However, investor anxiety that the U.S. Federal Reserve Board (Fed) would taper its quantitative easing program and tighten monetary policy earlier than expected, combined with a sharp correction in Japanese government bond yields, prompted profit taking in emerging market stocks, bonds and currencies. Additionally, commodity prices declined as the U.S. dollar rose. Further contributing to global financial market volatility in June was the People's Bank of China's (PBOC's) indication that it would not intervene in the interbank market after a sharp spike in a key lending rate caused investors to worry about the stability of the country's banking sector.

1. Source: © 2013 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.

Investor sentiment improved in the last week of the period, and emerging market stock prices rebounded from period lows after the PBOC did intervene to calm China's interbank market, positive economic reports helped stabilize Japanese government bond yields, and several Fed members reassured investors that the Fed's accommodative monetary policy would continue. The U.S. dollar remained strong against most currencies, however, including those of emerging market countries. For the six-month period, emerging market stocks declined in U.S. dollar terms, resulting partly from weaker emerging market currencies. Latin America was among the worst performers, with Peru, Colombia and Brazil posting double-digit declines.

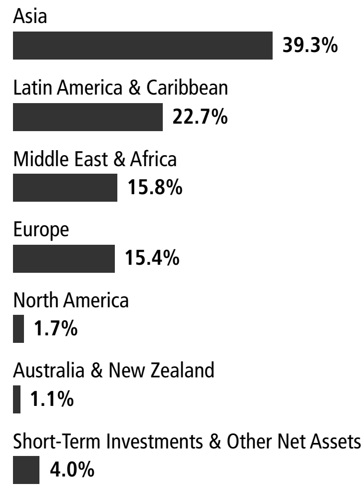
Investment Strategy

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 included Emaar Properties, a property developer and manager with operations throughout the Middle East, notably in Dubai, United Arab Emirates (UAE); Tata Consultancy Services, one of India's largest information technology (IT) consulting and services firms; and Great Wall Motor, one of China's leading automobile exporters and largest pickup truck and sport utility vehicle (SUV) manufacturers. Emaar's first-quarter revenue benefited from strong income growth in its shopping malls and retail leasing business, led by the Dubai Mall, its flagship mall asset. Dubai's rising tourism also boosted Emaar's hospitality business income growth as the developer's Dubai hotels recorded a high occupancy rate. Emaar has led the UAE's recent property market recovery, with several of the developer's new residential projects selling out upon launch. Earnings growth for Emaar, the emirate's largest property developer, could, in our view, potentially benefit from the UAE's continued property market recovery and Dubai's strengthening position as the Middle East's tourism center.

Geographic Breakdown
Templeton Developing Markets Securities Fund
Based on Total Net Assets as of 6/30/13



Top 10 Holdings
Templeton Developing Markets Securities Fund
6/30/13

Company *Sector/Industry, Country*	% of Total Net Assets
AmBev (Companhia de Bebidas das Americas) *Beverages, Brazil*	10.4%
Souza Cruz SA *Tobacco, Brazil*	5.3%
Remgro Ltd. *Diversified Financial Services, South Africa*	3.9%
Kasikornbank PCL, fgn. *Commercial Banks, Thailand*	3.7%
Tata Consultancy Services Ltd. *IT Services, India*	3.2%
Samsung Electronics Co. Ltd. *Semiconductors & Semiconductor Equipment, South Korea*	3.0%
Sberbank of Russia, pfd. *Commercial Banks, Russia*	2.8%
Emaar Properties PJSC *Real Estate Management & Development, UAE*	2.6%
Dairy Farm International Holdings Ltd. *Food & Staples Retailing, Hong Kong*	2.5%
SJM Holdings Ltd. *Hotels, Restaurants & Leisure, Hong Kong*	2.5%

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments.

Tata Consultancy's share price reached a multi-year high in the first half of the period after the company reported stronger-than-expected earnings results for its fiscal third-quarter 2013 (ended December 31, 2012), during which the company closed several large deals across industries and regions. Additionally, the company reported strong growth across its business segments for fiscal year 2013, particularly in consulting, business intelligence and enterprise solutions, and provided an encouraging guidance for fiscal year 2014 that supported investor sentiment. We believe that IT outsourcing is an attractive, growing industry and that Tata Consultancy, as an industry leader, is well positioned to potentially benefit from the industry's continued growth. The company delivered solid margin performance for its fiscal year 2013, and in our assessment, continued weakness in the Indian rupee could further drive demand and profit margin growth.

Great Wall Motor benefited from consistently delivering stronger-than-expected earnings results, with first-quarter earnings driven largely by its better product mix and China's continued SUV demand growth. The automaker's China H shares reached a record high during the period as investors welcomed the automaker's new lineup of revamped SUVs, as well as new sedan and pickup models.[2] We believe that the automaker, which has a leading local brand, could potentially benefit from China's greater SUV demand growth and the likelihood of increased exports, given the competitiveness of its products in international markets, particularly in Russia, Australia and South Africa.

In contrast, key detractors from the Fund's absolute performance included Antofagasta, a Chilean copper mining group; AmBev (Companhia de Bebidas das Americas), one of the world's largest beer and soft drink producers; and Souza Cruz, a major Brazilian cigarette company. Investor concerns about copper demand growth caused Antofagasta's share price to decline, along with those of many copper mining companies, despite the company's solid first-quarter earnings. Antofagasta's announcement that it was resuming a copper mine construction project, seen by many investors as only marginally profitable, also contributed to the share price weakness.

Brazil's currency depreciation, tax hikes, anti-government demonstrations in June, and concerns about slower global economic growth and the potential effects of the U.S. Fed's tapering of its asset purchase

2. "China H" denotes shares of China-incorporated, Hong Kong Stock Exchange-listed companies with most businesses in China.

program led many foreign investors to sell Brazilian stocks. This environment negatively affected AmBev's and Souza Cruz's share prices, which reached period lows before recovering near period-end. In our assessment, these companies' strong operations, low debt levels, good dividend yields and popular brands make them attractive investments. In our view, AmBev and Souza Cruz could continue to increase their market share as Brazilian consumers may become wealthier and more discerning.

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, 2013, the U.S. dollar rose in value relative to most currencies. 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, our continued search for investments we considered to be attractively valued led us to increase the Fund's holdings in Thailand and South Korea and to initiate positions in the Philippines and Taiwan. We also added to our investment in Switzerland and initiated positions in the U.K. as we identified companies listed in these developed countries that had significant emerging market operations and that we believed were well positioned, as a result, to benefit from stronger personal income and consumer demand growth in emerging market countries. We undertook some of our largest purchases in tobacco; consumer products; wireless telecommunication services; and hotels, restaurants and leisure companies. Key purchases included new positions in Unilever, a U.K.-listed global consumer products company that derives more than 50% of its sales from emerging and frontier markets; Shin, a major telecommunications group in Thailand; and Melco Crown Entertainment, one of only six casino operators in Macau, the world's largest gaming market.

Top 10 Countries
Templeton Developing Markets Securities Fund
6/30/13

	% of Total Net Assets
Brazil	17.5%
Hong Kong	8.4%
China	7.7%
Thailand	7.2%
Russia	6.6%
South Africa	4.9%
Indonesia	4.3%
India	4.3%
U.K.	4.3%
South Korea	4.0%

Conversely, we closed the Fund's position in Kazakhstan and reduced investments in Russia, Indonesia, India and China via China H and Red Chip shares as certain stocks reached their sale targets and to focus on stocks we considered to be more attractively valued within our investment universe.[3] We reduced the Fund's holdings largely in metals and mining; chemicals; automobiles; and oil, gas and consumable fuels companies. Key sales included elimination of the Fund's position in Russian potash fertilizer producer Uralkali and reduction of the Fund's investments in Indonesian car and motorcycle manufacturer Astra International, and Chinese oil and gas company PetroChina.

Thank you for your participation in Templeton Developing Markets Securities Fund. We look forward to serving your future investment needs.

The foregoing information reflects our analysis, opinions and portfolio holdings as of June 30, 2013, 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.

3. "Red Chip" denotes shares of Hong Kong Stock Exchange-listed companies with significant exposure to China.

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 1/1/13	Ending Account Value 6/30/13	Fund-Level Expenses Incurred During Period* 1/1/13–6/30/13
Actual	$1,000	$ 922.70	$7.68
Hypothetical (5% return before expenses)	$1,000	$1,016.81	$8.05

*Expenses are calculated using the most recent six-month annualized expense ratio for the Fund's Class 2 shares (1.61%), 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 181/365 to reflect the one-half year period.

Supplement Dated July 24, 2013
to the Prospectuses
Dated May 1, 2013
of
Franklin Income Securities Fund
Templeton Developing Markets Securities Fund
Templeton Foreign Securities Fund
(A series of Franklin Templeton Variable Insurance Products Trust)

The prospectus is amended as follows:

I. The "Fund Summaries – Portfolio Managers" section on page FI-S5 is revised to read as follows:

Portfolio Managers

EDWARD D. PERKS, CFA *Senior Vice President of Advisers and portfolio manager of the Fund since 2002.*

MATTHEW QUINLAN *Portfolio Manager of Advisers and portfolio manager of the Fund since December 2012.*

ALEX W. PETERS, CFA *Vice President of Advisers and portfolio manager of the Fund since December 2012.*

CHARLES B. JOHNSON *Portfolio Manager of Investment Counsel and portfolio manager of the Fund since 1989.*

II. The "Fund Details – Management" section disclosure concerning the portfolio management team beginning on page FI-D9 is revised to read as follows:

The Fund is managed by a team of dedicated professionals focused on investments in debt and equity securities. The portfolio managers of the team are as follows:

EDWARD D. PERKS, CFA Senior Vice President of Advisers	Mr. Perks has been the lead portfolio manager of the Fund since 2002. He has primary responsibility for the investments of the Fund. He has final authority over all aspects of the Fund's investment portfolio, including but not limited to, purchases and sales of individual securities, portfolio risk assessment, and the management of daily cash balances in accordance with anticipated investment management requirements. The degree to which he may perform these functions, and the nature of these functions, may change from time to time. He joined Franklin Templeton Investments in 1992.

MATTHEW QUINLAN Portfolio Manager of Advisers	Mr. Quinlan has been a portfolio manager of the Fund since December 2012, providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 2005.
ALEX W. PETERS, CFA Vice President of Advisers	Mr. Peters has been a portfolio manager of the Fund since December 2012, providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 1992.
CHARLES B. JOHNSON Portfolio Manager of Investment Counsel	Mr. Johnson has been a portfolio manager of the Fund since 1989, providing research, advice and portfolio risk assessment on the Fund's investment portfolio. He joined Franklin Templeton Investments in 1957.

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III. The "Fund Details – Principal Risks" section beginning on page TD-D3 for the Templeton Developing Markets Securities Fund is amended to add the following:

Participatory Notes

Participatory notes involve risks that are in addition to the risks normally associated with a direct investment in the underlying equity securities. In addition, the Fund is subject to the risk that the issuer of the participatory note (i.e., the issuing bank or broker-dealer), which is the only responsible party under the note, is unable or refuses to perform under the terms of the participatory note. While the holder of a participatory note is entitled to receive from the issuing bank or broker-dealer any dividends or other distributions paid on the underlying securities, the holder is not entitled to the same rights as an owner of the underlying securities, such as voting rights. Participatory notes are also not traded on exchanges, are privately issued, and may be illiquid. To the extent a participatory note is determined to be illiquid, it would be subject to the Fund's limitation on investments in illiquid securities. There can be no assurance that the trading price or value of participatory notes will equal the value of the underlying value of the equity securities they seek to replicate.

IV. The fifth paragraph of the "Fund Details – Principal Investment Policies and Practices" section on page TF-D1 for the Templeton Foreign Securities Fund is amended as follows:

The Fund may also buy and sell (write) exchange traded and over-the-counter equity call options on individual securities held in its portfolio in an amount up to 10% of its net assets, to generate additional income for the Fund. A call option gives the purchaser of the option, upon payment of a premium, the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price. For example, the Fund may write an option with a strike price that is generally equal to the price target at which the investment manager would sell (in the case of a call option) a particular stock, and in return the Fund would earn a premium from the buyer of the option. The investment manager considers various factors, such as availability and cost, in deciding whether, when and to what extent to enter into derivative transactions.

Please keep this supplement for future reference.

Franklin Templeton Variable Insurance Products Trust

Financial Highlights

Templeton Developing Markets Securities Fund

Class 1	Six Months Ended June 30, 2013 (unaudited)	Year Ended December 31, 2012	2011	2010	2009	2008
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$ 10.58	$ 9.50	$ 11.40	$ 9.86	$ 6.11	$ 16.16
Income from investment operations[a]:						
Net investment income[b]	0.10	0.19	0.17	0.09	0.12	0.16
Net realized and unrealized gains (losses)	(0.90)	1.06	(1.94)	1.63	4.02	(7.40)
Total from investment operations	(0.80)	1.25	(1.77)	1.72	4.14	(7.24)
Less distributions from:						
Net investment income	(0.23)	(0.17)	(0.13)	(0.18)	(0.36)	(0.37)
Net realized gains	—	—	—	—	(0.03)	(2.44)
Total distributions	(0.23)	(0.17)	(0.13)	(0.18)	(0.39)	(2.81)
Redemption fees[c]	—	—	—	—	—	—
Net asset value, end of period	$ 9.55	$ 10.58	$ 9.50	$ 11.40	$ 9.86	$ 6.11
Total return[d]	(7.51)%	13.40%	(15.67)%	17.83%	73.32%	(52.62)%
Ratios to average net assets[e]						
Expenses	1.36%	1.35%	1.40%	1.49%[f]	1.45%[f]	1.52%[f]
Net investment income	1.91%	1.93%	1.57%	0.87%	1.64%	1.52%
Supplemental data						
Net assets, end of period (000's)	$159,421	$203,568	$ 232,544	$347,242	$325,927	$ 234,213
Portfolio turnover rate	27.81%	24.45%	14.90%	24.41%	56.58%[g]	75.11%[g]

[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, 2013 (unaudited)	Year Ended December 31, 2012	2011	2010	2009	2008
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$ 10.50	$ 9.42	$ 11.30	$ 9.78	$ 6.04	$ 15.99
Income from investment operations[a]:						
Net investment income[b]	0.09	0.17	0.14	0.06	0.11	0.15
Net realized and unrealized gains (losses)	(0.90)	1.05	(1.92)	1.62	3.98	(7.33)
Total from investment operations	(0.81)	1.22	(1.78)	1.68	4.09	(7.18)
Less distributions from:						
Net investment income	(0.20)	(0.14)	(0.10)	(0.16)	(0.32)	(0.33)
Net realized gains	—	—	—	—	(0.03)	(2.44)
Total distributions	(0.20)	(0.14)	(0.10)	(0.16)	(0.35)	(2.77)
Redemption fees[c]	—	—	—	—	—	—
Net asset value, end of period	$ 9.49	$ 10.50	$ 9.42	$ 11.30	$ 9.78	$ 6.04
Total return[d]	(7.73)%	13.16%	(15.86)%	17.58%	72.59%	(52.70)%
Ratios to average net assets[e]						
Expenses	1.61%	1.60%	1.65%	1.74%[f]	1.70%[f]	1.77%[f]
Net investment income	1.66%	1.68%	1.32%	0.62%	1.39%	1.27%
Supplemental data						
Net assets, end of period (000's)	$267,008	$291,638	$ 295,223	$392,546	$435,947	$ 264,186
Portfolio turnover rate	27.81%	24.45%	14.90%	24.41%	56.58%[g]	75.11%[g]

[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, 2013 (unaudited)	Year Ended December 31, 2012	2011	2010	2009	2008
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$ 10.43	$ 9.36	$ 11.23	$ 9.73	$ 6.02	$ 15.96
Income from investment operations[a]:						
Net investment income[b]	0.09	0.17	0.14	0.06	0.10	0.11
Net realized and unrealized gains (losses)	(0.88)	1.04	(1.91)	1.60	3.97	(7.27)
Total from investment operations	(0.79)	1.21	(1.77)	1.66	4.07	(7.16)
Less distributions from:						
Net investment income	(0.20)	(0.14)	(0.10)	(0.16)	(0.33)	(0.34)
Net realized gains	—	—	—	—	(0.03)	(2.44)
Total distributions	(0.20)	(0.14)	(0.10)	(0.16)	(0.36)	(2.78)
Redemption fees[c]	—	—	—	—	—	—
Net asset value, end of period	$ 9.44	$ 10.43	$ 9.36	$ 11.23	$ 9.73	$ 6.02
Total return[d]	(7.63)%	13.16%	(15.86)%	17.51%	72.63%	(52.67)%
Ratios to average net assets[e]						
Expenses	1.61%	1.60%	1.65%	1.74%[f]	1.70%[f]	1.77%[f]
Net investment income	1.66%	1.68%	1.32%	0.62%	1.39%	1.27%
Supplemental data						
Net assets, end of period (000's)	$ 37,550	$ 48,277	$ 44,702	$ 66,484	$ 66,718	$ 32,953
Portfolio turnover rate	27.81%	24.45%	14.90%	24.41%	56.58%[g]	75.11%[g]

[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 4	Six Months Ended June 30, 2013 (unaudited)	Year Ended December 31, 2012	2011	2010	2009	2008[a]
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$ 10.50	$ 9.42	$ 11.30	$ 9.80	$ 6.09	$ 14.88
Income from investment operations[b]:						
Net investment income (loss)[c]	0.08	0.16	0.13	0.05	0.09	(0.33)
Net realized and unrealized gains (losses)	(0.88)	1.04	(1.91)	1.61	4.00	(5.65)
Total from investment operations	(0.80)	1.20	(1.78)	1.66	4.09	(5.98)
Less distributions from:						
Net investment income	(0.19)	(0.12)	(0.10)	(0.16)	(0.35)	(0.37)
Net realized gains	—	—	—	—	(0.03)	(2.44)
Total distributions	(0.19)	(0.12)	(0.10)	(0.16)	(0.38)	(2.81)
Redemption fees[d]	—	—	—	—	—	—
Net asset value, end of period	$ 9.51	$ 10.50	$ 9.42	$ 11.30	$ 9.80	$ 6.09
Total return[e]	(7.76)%	13.06%	(15.88)%	17.41%	72.45%	(48.66)%
Ratios to average net assets[f]						
Expenses	1.71%	1.70%	1.75%	1.84%[g]	1.80%[g]	1.87%[g]
Net investment income	1.56%	1.58%	1.22%	0.52%	1.29%	1.17%
Supplemental data						
Net assets, end of period (000's)	$ 18,618	$ 23,341	$ 24,380	$ 37,198	$ 26,362	$ 7,208
Portfolio turnover rate	27.81%	24.45%	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.

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

Franklin Templeton Variable Insurance Products Trust

Statement of Investments, June 30, 2013 (unaudited)

Templeton Developing Markets Securities Fund	Industry	Shares	Value
Closed End Funds 0.6%			
Romania 0.6%			
[a]SIF Banat-Crisana	Diversified Financial Services	1,428,700	$ 474,824
SIF Moldova	Diversified Financial Services	1,669,845	603,650
SIF Muntenia	Diversified Financial Services	1,191,732	238,336
SIF Oltenia	Diversified Financial Services	1,975,791	824,842
SIF Transilvania	Diversified Financial Services	4,970,540	778,877
Total Closed End Funds (Cost $3,109,586)			2,920,529
Common Stocks 87.0%			
Australia 1.1%			
BHP Billiton Ltd.	Metals & Mining	180,668	5,184,680
Austria 0.8%			
Raiffeisen Bank International AG	Commercial Banks	125,012	3,644,970
Brazil 16.8%			
Companhia de Bebidas das Americas (AmBev)	Beverages	1,362,350	50,444,051
M Dias Branco SA	Food Products	143,700	5,443,309
Souza Cruz SA	Tobacco	2,053,928	25,387,284
			81,274,644
Chile 0.6%			
Antofagasta PLC	Metals & Mining	227,279	2,748,840
China 7.7%			
China Mobile Ltd.	Wireless Telecommunication Services	532,000	5,569,711
China Overseas Land & Investment Ltd.	Real Estate Management & Development	2,114,900	5,521,790
CNOOC Ltd.	Oil, Gas & Consumable Fuels	4,172,000	7,078,890
Great Wall Motor Co. Ltd., H	Automobiles	1,318,577	5,661,281
[a]Melco Crown Entertainment Ltd., ADR	Hotels, Restaurants & Leisure	448,443	10,027,186
PetroChina Co. Ltd., H	Oil, Gas & Consumable Fuels	3,084,400	3,280,875
			37,139,733
Colombia 1.0%			
Bancolombia SA, ADR	Commercial Banks	48,500	2,740,250
Ecopetrol SA, ADR	Oil, Gas & Consumable Fuels	45,349	1,907,379
			4,647,629
Hong Kong 8.4%			
Dairy Farm International Holdings Ltd.	Food & Staples Retailing	1,014,733	12,186,943
Giordano International Ltd.	Specialty Retail	3,673,000	3,215,553
I.T Ltd.	Specialty Retail	5,818,000	2,085,372
Luk Fook Holdings (International) Ltd.	Specialty Retail	2,126,313	4,934,745
[b]Luk Fook Holdings (International) Ltd., 144A	Specialty Retail	130,000	301,704
MGM China Holdings Ltd.	Hotels, Restaurants & Leisure	2,135,300	5,698,942
SJM Holdings Ltd.	Hotels, Restaurants & Leisure	4,946,730	11,914,068
			40,337,327
Hungary 0.1%			
OTP Bank PLC	Commercial Banks	26,840	563,176
India 4.3%			
Tata Consultancy Services Ltd.	IT Services	612,050	15,610,446
Tata Motors Ltd.	Automobiles	1,063,000	5,025,471
			20,635,917

Statement of Investments, June 30, 2013 (unaudited) *(continued)*

Templeton Developing Markets Securities Fund	Industry	Shares	Value
Common Stocks (continued)			
Indonesia 4.3%			
PT Astra International Tbk	Automobiles	14,036,900	$ 9,900,080
PT Bank Central Asia Tbk	Commercial Banks	4,007,532	4,037,816
PT Bank Rakyat Indonesia (Persero) Tbk	Commercial Banks	8,664,000	6,765,340
			20,703,236
Kenya 1.3%			
Equity Bank Ltd.	Commercial Banks	8,986,101	3,272,910
Kenya Commercial Bank Ltd.	Commercial Banks	5,335,900	2,301,029
Safaricom Ltd.	Wireless Telecommunication Services	9,225,600	709,661
			6,283,600
Mexico 1.3%			
Kimberly Clark de Mexico SAB de CV, A	Household Products	1,952,613	6,403,220
Nigeria 1.7%			
FBN Holdings PLC	Commercial Banks	36,527,236	4,022,873
Nigerian Breweries PLC	Beverages	4,303,824	4,133,556
			8,156,429
Philippines 1.0%			
Ayala Corp.	Diversified Financial Services	344,200	4,631,926
Qatar 2.1%			
Industries Qatar QSC	Industrial Conglomerates	236,682	10,304,514
Russia 3.8%			
CTC Media Inc.	Media	42,900	477,048
[c]LUKOIL Holdings, ADR	Oil, Gas & Consumable Fuels	29,958	1,718,840
[c]LUKOIL Holdings, ADR (London Stock Exchange)	Oil, Gas & Consumable Fuels	174,418	10,007,233
Mining and Metallurgical Co. Norilsk Nickel, ADR	Metals & Mining	155,043	2,233,394
[a]TNK-BP Holding	Oil, Gas & Consumable Fuels	2,893,673	4,087,415
			18,523,930
Singapore 1.5%			
K-REIT Asia	Real Estate Investment Trusts (REITs)	5,248,511	5,363,442
Keppel Corp. Ltd.	Industrial Conglomerates	197,557	1,621,300
			6,984,742
South Africa 4.9%			
Remgro Ltd.	Diversified Financial Services	977,324	18,784,993
Tiger Brands Ltd.	Food Products	167,332	5,010,224
			23,795,217
South Korea 4.0%			
Grand Korea Leisure Co. Ltd.	Hotels, Restaurants & Leisure	139,610	4,326,150
LG Fashion Corp.	Textiles, Apparel & Luxury Goods	28,382	700,606
Samsung Electronics Co. Ltd.	Semiconductors & Semiconductor Equipment	12,328	14,481,947
			19,508,703
Sweden 0.5%			
Oriflame Cosmetics SA, SDR	Personal Products	81,636	2,584,200
Switzerland 2.0%			
Compagnie Financiere Richemont SA	Textiles, Apparel & Luxury Goods	108,904	9,630,025

Statement of Investments, June 30, 2013 (unaudited) *(continued)*

Templeton Developing Markets Securities Fund	Industry	Shares	Value
Common Stocks (continued)			
Taiwan 0.8%			
Taiwan Semiconductor Manufacturing Co. Ltd.	Semiconductors & Semiconductor Equipment	984,500	$ 3,646,296
Thailand 7.2%			
Advanced Info Service PCL, fgn.	Wireless Telecommunication Services	105,300	953,584
Kasikornbank PCL, fgn.	Commercial Banks	2,875,000	18,095,697
Shin Corp. PCL	Wireless Telecommunication Services	3,635,500	10,156,985
Thai Beverage PCL	Beverages	12,053,200	5,611,669
			34,817,935
Turkmenistan 0.5%			
Dragon Oil PLC	Oil, Gas & Consumable Fuels	297,559	2,587,413
United Arab Emirates 2.6%			
Emaar Properties PJSC	Real Estate Management & Development	8,942,377	12,660,049
United Kingdom 4.3%			
British American Tobacco PLC	Tobacco	190,300	9,751,209
Unilever PLC	Food Products	265,334	10,740,037
			20,491,246
United States 1.7%			
Avon Products Inc.	Personal Products	391,680	8,237,030
Vietnam 0.1%			
DHG Pharmaceutical JSC	Pharmaceuticals	95,800	393,049
Dong Phu Rubber JSC	Chemicals	104,160	238,234
			631,283
Zimbabwe 0.6%			
Delta Corp. Ltd.	Beverages	2,209,976	3,093,966
Total Common Stocks (Cost $301,136,119)			419,851,876
[d]**Participatory Notes 2.6%**			
Saudi Arabia 2.6%			
[b]Deutsche Bank AG/London, Saudi Dairy & Foodstuff Co., 144A, 5/13/14	Food Products	55,781	1,275,492
[b]HSBC Bank PLC,			
Al Mouwasat Medical Services, 144A, 4/13/15	Health Care Providers & Services	19,800	361,670
Etihad Etisalat Co., 144A, 12/05/14	Wireless Telecommunication Services	515,329	10,924,683
Total Participatory Notes (Cost $11,398,544)			12,561,845
Preferred Stocks 5.8%			
Brazil 0.7%			
Itausa - Investimentos Itau SA, pfd.	Commercial Banks	914,705	3,389,772
[a]Itausa - Investimentos Itau SA, DPP, pfd.	Commercial Banks	24,675	90,335
			3,480,107
Chile 2.3%			
Embotelladora Andina SA, pfd., A	Beverages	2,525,717	11,160,781

Franklin Templeton Variable Insurance Products Trust

Statement of Investments, June 30, 2013 (unaudited) *(continued)*

Templeton Developing Markets Securities Fund	Industry	Shares	Value
Preferred Stocks (continued)			
Russia 2.8%			
Sberbank of Russia, pfd.	Commercial Banks	6,293,975	$ 13,413,342
Total Preferred Stocks (Cost $25,649,633)			28,054,230
Total Investments before Short Term Investments (Cost $341,293,882)			463,388,480
Short Term Investments (Cost $22,857,344) 4.8%			
Money Market Funds 4.8%			
United States 4.8%			
[a,e]Institutional Fiduciary Trust Money Market Portfolio		22,857,344	22,857,344
Total Investments (Cost $364,151,226) 100.8%			486,245,824
Other Assets, less Liabilities (0.8)%			(3,647,820)
Net Assets 100.0%			$482,598,004

See Abbreviations on page TD-30.

[a]Non-income producing.
[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. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At June 30, 2013, the aggregate value of these securities was $12,863,549, representing 2.67% of net assets.
[c]At June 30, 2013, 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]See Note 1(c) regarding Participatory Notes.
[e]See Note 7 regarding investments in the Institutional Fiduciary Trust Money Market Portfolio.

Franklin Templeton Variable Insurance Products Trust

Financial Statements

Statement of Assets and Liabilities

June 30, 2013 (unaudited)

	Templeton Developing Markets Securities Fund
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	$341,293,882
Cost - Sweep Money Fund (Note 7)	22,857,344
Total cost of investments	$364,151,226
Value - Unaffiliated issuers	$463,388,480
Value - Sweep Money Fund (Note 7)	22,857,344
Total value of investments	486,245,824
Cash	443,125
Foreign currency, at value (cost $4,956)	4,912
Receivables:	
Investment securities sold	654,147
Capital shares sold	570,685
Dividends	911,775
Foreign tax	25,763
Other assets	158
Total assets	488,856,389
Liabilities:	
Payables:	
Investment securities purchased	4,276,990
Capital shares redeemed	915,194
Affiliates	644,455
Accrued expenses and other liabilities	421,746
Total liabilities	6,258,385
Net assets, at value	$482,598,004
Net assets consist of:	
Paid-in capital	$409,975,965
Distributions in excess of net investment income	(2,059,504)
Net unrealized appreciation (depreciation)	122,056,757
Accumulated net realized gain (loss)	(47,375,214)
Net assets, at value	$482,598,004

Franklin Templeton Variable Insurance Products Trust

Financial Statements *(continued)*

Statement of Assets and Liabilities *(continued)*

June 30, 2013 (unaudited)

	Templeton Developing Markets Securities Fund
Class 1:	
Net assets, at value	$159,421,336
Shares outstanding	16,684,839
Net asset value and maximum offering price per share	$ 9.55
Class 2:	
Net assets, at value	$267,008,451
Shares outstanding	28,123,838
Net asset value and maximum offering price per share	$ 9.49
Class 3:	
Net assets, at value	$ 37,549,855
Shares outstanding	3,979,212
Net asset value and maximum offering price per share[a]	$ 9.44
Class 4:	
Net assets, at value	$ 18,618,362
Shares outstanding	1,958,199
Net asset value and maximum offering price per share	$ 9.51

[a]Redemption price is equal to net asset value less redemption fees retained by the Fund.

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

Financial Statements *(continued)*

Statement of Operations

for the six months ended June 30, 2013 (unaudited)

	Templeton Developing Markets Securities Fund
Investment income:	
Dividends (net of foreign taxes of $664,130)	$ 8,946,281
Income from securities loaned	14,338
Total investment income	8,960,619
Expenses:	
Management fees (Note 3a)	3,010,917
Administrative fees (Note 3b)	385,193
Distribution fees: (Note 3c)	
Class 2	361,461
Class 3	57,133
Class 4	38,950
Unaffiliated transfer agent fees	526
Custodian fees (Note 4)	177,204
Reports to shareholders	104,367
Professional fees	36,954
Trustees' fees and expenses	1,204
Other	9,974
Total expenses	4,183,883
Net investment income	4,776,736
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments	46,990,763
Foreign currency transactions	(247,634)
Net realized gain (loss)	46,743,129
Net change in unrealized appreciation (depreciation) on:	
Investments	(90,957,687)
Translation of other assets and liabilities denominated in foreign currencies	(15,598)
Change in deferred taxes on unrealized appreciation	21,147
Net change in unrealized appreciation (depreciation)	(90,952,138)
Net realized and unrealized gain (loss)	(44,209,009)
Net increase (decrease) in net assets resulting from operations	$(39,432,273)

Financial Statements *(continued)*

Statements of Changes in Net Assets

	Templeton Developing Markets Securities Fund	
	Six Months Ended June 30, 2013 (unaudited)	Year Ended December 31, 2012
Increase (decrease) in net assets:		
Operations:		
Net investment income	$ 4,776,736	$ 10,321,744
Net realized gain (loss) from investments and foreign currency transactions	46,743,129	37,187,656
Net change in unrealized appreciation (depreciation) on investments, translation of other assets and liabilities denominated in foreign currencies and deferred taxes	(90,952,138)	25,533,270
Net increase (decrease) in net assets resulting from operations	(39,432,273)	73,042,670
Distributions to shareholders from:		
Net investment income:		
Class 1	(3,816,779)	(3,523,272)
Class 2	(5,449,449)	(4,111,805)
Class 3	(777,644)	(716,639)
Class 4	(373,848)	(295,623)
Total distributions to shareholders	(10,417,720)	(8,647,339)
Capital share transactions: (Note 2)		
Class 1	(27,397,174)	(52,933,691)
Class 2	2,547,894	(36,646,633)
Class 3	(6,795,146)	(1,195,085)
Class 4	(2,731,593)	(3,647,744)
Total capital share transactions	(34,376,019)	(94,423,153)
Redemption fees	906	1,457
Net increase (decrease) in net assets	(84,225,106)	(30,026,365)
Net assets:		
Beginning of period	566,823,110	596,849,475
End of period	$482,598,004	$566,823,110
Undistributed net investment income (distributions in excess of net investment income) included in net assets:		
End of period	$ (2,059,504)	$ 3,581,480

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-one 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 (OTC) 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 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 OTC 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 against

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Financial Instrument Valuation (continued)

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.

In addition, certain foreign markets may be open on days that the NYSE is closed, which could result in differences between the value of the Fund's portfolio securities on the last business day and the last calendar day of the reporting period. Any significant security valuation changes due to an open foreign market are adjusted and reflected by the Fund for financial reporting purposes.

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. Participatory Notes

The Fund invests in Participatory Notes (P-Notes). P-notes are promissory notes that are 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 common stocks in markets where direct investment is not allowed. Income received from P-Notes is recorded as dividend income in the Statement of Operations. P-Notes may contain various risks including the potential inability of the counterparty to fulfill their obligations under the terms of the contract. These securities may be more volatile and less liquid than other investments held by the Fund.

d. 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. 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

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Securities Lending (continued)

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. At June 30, 2013, the Fund had no securities on loan.

e. 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.

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, 2013, 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.

f. 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.

g. 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.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

h. 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.

i. 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.

2. SHARES OF BENEFICIAL INTEREST

At June 30, 2013, 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, 2013		Year Ended December 31, 2012	
Class 1 Shares:	**Shares**	**Amount**	**Shares**	**Amount**
Shares sold	593,031	$ 6,362,205	1,107,285	$ 11,165,172
Shares issued in reinvestment of distributions	392,673	3,816,779	385,901	3,523,272
Shares redeemed	(3,537,696)	(37,576,158)	(6,733,412)	(67,622,135)
Net increase (decrease)	(2,551,992)	$(27,397,174)	(5,240,226)	$(52,933,691)
Class 2 Shares:				
Shares sold	2,887,511	$ 29,837,645	3,879,555	$ 38,012,902
Shares issued in reinvestment of distributions	564,125	5,449,449	453,341	4,111,805
Shares redeemed	(3,103,000)	(32,739,200)	(7,891,630)	(78,771,340)
Net increase (decrease)	348,636	$ 2,547,894	(3,558,734)	$(36,646,633)
Class 3 Shares:				
Shares sold	337,469	$ 3,607,266	998,194	$ 10,036,984
Shares issued in reinvestment of distributions	81,005	777,644	79,538	716,639
Shares redeemed	(1,066,612)	(11,180,056)	(1,224,195)	(11,948,708)
Net increase (decrease)	(648,138)	$ (6,795,146)	(146,463)	$ (1,195,085)
Class 4 Shares:				
Shares sold	93,448	$ 993,059	257,374	$ 2,544,613
Shares issued on reinvestment of distributions	38,661	373,848	32,558	295,623
Shares redeemed	(395,789)	(4,098,500)	(656,835)	(6,487,980)
Net increase (decrease)	(263,680)	$ (2,731,593)	(366,903)	$ (3,647,744)

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

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. Some distribution fees are not charged on shares held by affiliates. 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, 2013, there were no credits earned.

5. INCOME TAXES

For tax purposes, capital losses may be carried over to offset future capital gains. Capital loss carryforwards with no expiration, if any, must be fully utilized before those losses with expiration dates.

At December 31, 2012, the Fund had capital loss carryforwards of $88,126,277 expiring in 2017.

At June 30, 2013, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	$376,526,690
Unrealized appreciation	$130,443,886
Unrealized depreciation	(20,724,752)
Net unrealized appreciation (depreciation)	$109,719,134

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, and corporate actions.

6. INVESTMENT TRANSACTIONS

Purchases and sales of investments (excluding short term securities) for the period ended June 30, 2013, aggregated $148,918,292 and $200,125,049, 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 17, 2014. 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 0.07% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses on the Statement of Operations. During the period ended June 30, 2013, the Fund did not use the Global Credit Facility.

Franklin Templeton Variable Insurance Products Trust

Notes to Financial Statements (unaudited) *(continued)*

Templeton Developing Markets Securities Fund

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, 2013, in valuing the Fund's assets carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities:				
Closed End Funds	$ 2,920,529	$ —	$ —	$ 2,920,529
Equity Investments:[a]				
Russia	14,571,696	17,365,576	—	31,937,272
All Other Equity Investments[b]	415,968,834	—	—	415,968,834
Participatory Notes	—	12,561,845	—	12,561,845
Short Term Investments	22,857,344	—	—	22,857,344
Total Investments in Securities	$456,318,403	$29,927,421	$ —	$486,245,824

[a]Includes common and preferred stocks.
[b]For detailed categories, see the accompanying Statement of Investments.

11. NEW ACCOUNTING PRONOUNCEMENTS

In June 2013, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2013-08, Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements. The ASU modifies the criteria used in defining an investment company under U.S. Generally Accepted Accounting Principles and also sets forth certain measurement and disclosure requirements. Under the ASU, an entity that is registered under the 1940 Act automatically qualifies as an investment company. The ASU is effective for interim and annual reporting periods beginning after December 15, 2013. The Fund is currently reviewing the requirements and 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.

Templeton Developing Markets Securities Fund

ABBREVIATIONS

Selected Portfolio

ADR - American Depositary Receipt
DPP - Depositary Receipt Preferred
SDR - Swedish Depositary Receipt

Franklin Templeton Variable Insurance Products Trust

Tax Information (unaudited)

Templeton Developing Markets Securities Fund

At December 31, 2012, 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 13, 2013, 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 provided as detailed analysis of foreign taxes 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	$0.2647
Class 2	$0.0339	$0.2386
Class 3	$0.0339	$0.2346
Class 4	$0.0339	$0.2246

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.

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The indexes are unmanaged and include reinvested distributions.

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 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 6/30/13, there were 274 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 6/30/13, there were 67 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 6/30/13, there were 50 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 Yield Funds Classification Average is an equally weighted average calculation of performance figures for all funds within the Lipper High Yield Funds Classification in the Lipper VIP underlying funds universe. Lipper High 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 6/30/13, there were 112 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 World Index (ACWI) 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.

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 16, 2013, 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, along with 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 well during the Florida hurricanes and blackouts experienced in previous years, and that those operations in the New York/New Jersey area ran smoothly during the more recent Hurricane Sandy. 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.

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 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, 2013, 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 lowest performing quintile of its performance universe, and on an annualized basis to be in the lowest performing quintile of such universe for the previous three-year period and the second-lowest performing quintile of such universe for the previous five-year period. The Board was not satisfied with the Fund's performance and discussed with management the reasons for such performance and steps being taken to improve it, including the restructuring of certain internal processes and the addition of an experienced analyst to assist the portfolio management team. While intending to monitor future developments, the Board believed that management was taking appropriate action to improve performance and that no immediate change in portfolio managers was necessary.

Franklin Global Real Estate Securities Fund – The performance universe for this Fund consisted of the Fund and all global real estate funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's 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 highest performing quintile of such universe for the previous three-year period, but in the next to lowest performing quintile of such universe for each of the previous five- and 10-year periods. The Board noted steps that had been taken by management in recent years 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 Fund's recent performance as shown in the Lipper report.

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 lowest performing quintile of its performance universe, and on an annualized basis to be in the second-highest performing quintile of such universe for each of the previous three- and five-year periods, and the second-lowest performing quintile of such universe for the previous 10-year period. The Board discussed with management the reasons for the Fund's total return underperformance for the one-year period and steps being taken to improve it, but found the Fund's overall comparative performance as shown in the Lipper report to be satisfactory noting the Fund's total return for the one-year period exceeded 14%.

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-highest performing quintile of such universe, and on an annualized basis to be in the middle performing quintile of such universe for the previous three-year period, and to be in the second-lowest quintile of such universe for each of the previous five- and 10-year periods. The Lipper report showed the Fund's total return to be in the second-highest performing quintile of its performance universe for the one-year period, and, on an annualized basis, to be in either the highest performing quintile or second-highest performing quintile of such universe for each of the previous three-, five- and 10-year periods. The Board found the Fund's overall performance as shown in the Lipper report to be satisfactory, noting that its annualized income return for each of the previous five- and 10-year periods as shown in such report exceeded 7%.

Board Review of Investment Management Agreement *(continued)*

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 performing 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 also be in the highest performing quintile of its performance universe for the one-year period as well as for each of the previous three-, five- and 10-year periods on an annualized basis. 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 total return to be in the lowest performing quintile of such universe for the one-year period, and on an annualized basis to be in the second-lowest performing quintile of such universe for the previous three-year period, the middle performing quintile of such universe for the previous five-year period, and the lowest performing quintile of such universe for the previous 10-year period. The Board discussed with management the reasons for the Fund's one-year comparative underperformance, which had dragged down its overall annualized performance, and the steps being taken to improve it. While intending to monitor ongoing performance, the Board did not believe any immediate change in portfolio management was warranted, noting as shown in the Lipper report, that the Fund's total return for the one-year period exceeded 12%, its five-year annualized total return was above the median for the performance universe, and its 10-year annualized return was within 76 basis points of the median for the performance universe.

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 second-lowest performing quintile of such universe for the one-year period and on an annualized basis to also be in the second-lowest performing quintile of such universe for each of the previous three- and five-year periods. The Board was not satisfied with the Fund's comparative performance, but believed management was taking appropriate steps to improve it, including the hiring of an experienced analyst during the past year. The Board also noted that the Lipper report showed the Fund's one-year total return to be in excess of 16% and its annualized three- and five-year returns to be within less than 1½% and 1%, respectively, of the performance universe medians for such periods.

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 second-highest performing quintile of the performance universe for the one-year period, and on an annualized basis to be in the highest performing quintile of such universe for each of the previous three- and five-year periods, and the middle performing quintile of such universe for the previous 10-year period. 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 be in either the highest performing quintile or second-highest performing 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 set forth in the Lipper report.

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 second-lowest performing quintile of such universe, and on an annualized basis to also be in the second-lowest performing quintile of such universe for the previous three-year period, the second-highest performing quintile of such universe for the previous five-year period, and the second-lowest performing quintile of such universe for the previous 10-year period. The Board discussed the reasons for the Fund's comparative underperformance for the one-year period and steps being taken to improve such performance, including the addition of an analyst to the health care sector's research team and increased discipline in analyzing downside risk scenarios and their potential impact on stock prices. While intending to monitor ongoing performance, the Board believed management was taking appropriate steps to improve it, and noted as shown

Board Review of Investment Management Agreement *(continued)*

in the Lipper report that the Fund's total return for the one-year period exceeded 10% and its annualized total return for the previous three- and 10-year periods were each less than 1% below the median of the Lipper performance universe.

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 highest or best performing quintile of such performance universe for the one-year period, and on an annualized basis to also be in the highest performing quintile of such universe during each of the previous three- and five-year periods, and in the middle performing quintile of such universe for the previous 10-year period. The Lipper report showed the Fund's total return to be in the highest performing quintile of such universe during the one-year period, and on an annualized basis to be in either the highest performing or second-highest performing quintile of such universe for each of the previous three-, five- and 10-year periods. The Board was satisfied with the Fund's performance as shown in the Lipper report.

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 five full years and the Lipper report showed its income return to be in the highest performing quintile of such performance universe for the one-year period, and on an annualized basis to be in the middle performing quintile of such universe for each of the previous three- and five-year periods. The Lipper report showed the Fund's total return for the one-year period to be in the highest performing quintile of such performance universe and on an annualized basis to be in the middle performing quintile of such universe for the previous three-year period and the second-lowest performing quintile of such universe for the previous five-year period. 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 found the Fund's comparative performance as set forth in the Lipper report to be satisfactory and that no change was needed to 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 performing quintile of such universe and on an annualized basis to be in either the highest performing or second-highest 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 to be in the middle performing quintile of such universe for the one-year period, and on an annualized basis to be in the second-lowest performing quintile of such universe for each of the previous three- and five-year periods and the middle performing 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 for the one-year and annualized three- and five-year periods was in each case within half a percent of the median for the Lipper performance universe, and its annualized total return for the 10-year period was above the median of such universe.

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 lowest performing quintile of such universe for the one-year period, and on an annualized basis to be in the middle quintile of such universe for the three-year period, and the highest or best performing 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, noting its one-year total return exceeded 16.5%.

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 three full years at the date of the Lipper report, which showed its total return for the one-year period to be in the upper half of its Lipper performance universe and its annualized three-year total return to be in the highest performing quintile of such universe. The Board was pleased with such comparative performance as shown in the Lipper report, but noted its significance was limited in view of the Fund's short period of operation.

Board Review of Investment Management Agreement *(continued)*

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 total return for the one-year period to be in the middle performing quintile of the performance universe, and on an annualized basis to be in the second-lowest performing quintile of such universe for the previous three-year period, and the middle performing quintile of such universe for each of the previous five- and 10-year periods. The Board found the Fund's overall performance as shown in the Lipper report to be acceptable, noting its annualized three-year total return as shown in such report was 10.77%.

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 middle performing quintile of such performance universe and on an annualized basis to be in the second-highest performing quintile of such universe for the previous three-year period, the highest or best performing quintile of such universe during the previous five-year period, and the middle performing quintile of such universe during the previous 10-year period. The Board found the comparative performance of the Fund as set forth in the Lipper report to be satisfactory.

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 second-highest performing quintile of such performance universe and on an annualized basis to be in either the highest performing quintile or second-highest performing quintile of such universe in each of the previous three-, five- and 10-year periods. 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 be in either the highest or second-highest 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-highest performing quintile of its performance universe, and on an annualized basis to be in either the highest or second-highest performing 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 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 highest or best performing quintile of such performance universe and on an annualized basis to be in the middle performing quintile of such universe for each of the previous three- and five-year periods, and the second-lowest performing quintile 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.

COMPARATIVE EXPENSES. Consideration was given to expense comparison information contained in the Lipper reports furnished for each Fund that compared its management fees 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 the Fund's 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.

Franklin Templeton Variable Insurance Products Trust

Shareholder Information *(continued)*

Board Review of Investment Management Agreement *(continued)*

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 quintiles 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 of each of Franklin Rising Dividends Securities Fund, Franklin Small-Mid Cap Growth Securities Fund, Franklin U.S. Government Fund, Templeton Foreign Securities Fund and Franklin Templeton VIP Founding Funds Allocation Fund were at or below the medians of their Lipper expense groups, and their actual total expense ratios in each case were below the medians of their Lipper expense groups. 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, Franklin Flex Cap Growth Securities Fund and Franklin Large Cap Value Securities Fund were above the medians of their Lipper expense groups, but in each case their actual total expense ratios were below the medians of such groups. The Board was satisfied with the comparative expenses of these Funds as shown in their Lipper reports, noting that the expenses of each of these Funds 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, seven basis points of the median of its Lipper expense group. The contractual investment fee rate of Mutual Shares Securities Fund was less than six basis points higher than the median of its Lipper expense group while its actual expense ratio was at the median of such expense group. The contractual management fee rate and actual expense ratio of Templeton Growth Securities Fund in both cases were above, but within, 12 basis points of the medians of its Lipper expense group. The Board found the comparative expenses of these Funds as shown in their Lipper reports to be acceptable. The contractual investment management fee rate of Templeton Developing Markets Securities Fund was less than 18 basis points above the median of its Lipper expense group, and its actual total expense ratio was less than 10 basis points above the median of its Lipper expense group. 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. The contractual investment management fee rate and actual total expense ratio of Mutual Global Discovery Securities Fund were the most expensive in its Lipper expense group, but within 26 basis points and 18 basis points, respectively, of the expense group medians. The Board found such expenses to be acceptable in view of the Fund's overall favorable investment performance and the quality and experience of its portfolio managers. The contractual management fee rate and actual total expense ratio of Franklin Global Real Estate Securities Fund were the most expensive in its Lipper expense group, but in each case were within 17 basis points of the expense group medians. The Board found such expenses to be acceptable, noting the favorable recent performance of such Fund and that such expenses reflected a phased-in management fee increase approved by shareholders that became fully effective May 1, 2012.

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, 2012, 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 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 periodically 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

Franklin Templeton Variable Insurance Products Trust

Shareholder Information *(continued)*

Board Review of Investment Management Agreement *(continued)*

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, other than Franklin Rising Dividends Securities Fund, 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. The investment management structure of Franklin Rising Dividends Securities Fund provides for a fee of 0.75% on the first $500 million of assets; 0.625% on the next $500 million of assets; and 0.50% on assets in excess of $1 billion. This Fund had assets of $1.7 billion at December 31, 2012, and in reviewing its fee structure, management stated its belief that this fee structure reaches a relatively low rate quickly reflecting anticipated economies of scale. In support of such position, management pointed out the favorable management fee and total expense comparisons of this Fund within its Lipper expense group as previously discussed under "Comparative Expenses." In light of such position and taking into account the fact that the reduced rate on assets in excess of the last breakpoint lowers the Fund's overall investment management fee rate, the Board believed that the schedule of investment management fees provides a sharing of benefits for the Fund and its shareholders, but intends to monitor future growth and the appropriateness of adding additional breakpoints.

In addition to the investment advisory services provided to Franklin Strategic Income Securities Fund under its investment management agreement, administrative services have been historically provided such Fund under a separate agreement at a fixed charge of 20 basis points. In addition to the investment advisory services provided to Franklin Flex Cap Growth Securities Fund, Franklin Global Real Estate Securities Fund, Franklin Large Cap Value Securities Fund, Franklin Small-Mid Cap Growth Securities Fund and Mutual International Securities Fund under their respective investment management agreements, administrative services have been historically provided such Funds under a separate agreement at a fixed charge of 25 basis points. At the April 16, 2013, Board meeting, the Board eliminated the separate agreements and approved a new form of investment management agreement for each such Fund combining such services. In approving the new form of investment management agreements, the Board took into account the fact that the types of services and aggregate fees, including breakpoints, would be the same as provided under the previous separate agreements for each Fund and that combining such services was consistent with Lipper's methodology of considering contractual investment management fees to include any separately charged administrative fee. The Board also noted that combining services in a single agreement would have no impact on management's subsidization of expenses for Franklin Flex Cap Growth Securities Fund, Franklin Large Cap Value Securities Fund and Mutual International Securities Fund.

Franklin Templeton Variable Insurance Products Trust

Shareholder Information *(continued)*

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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FRANKLIN TEMPLETON INVESTMENTS

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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 08/13