ZURICH®

August 29, 2014

Dear Contract Owner:

Zurich American Life Insurance Company is pleased to continue with our customized process for producing and distributing semi-annual reports for the registered funds underlying the investment choices you have selected in your Destinations VA or Farmers VA I variable annuity contract.

Your customized semi-annual report is enclosed. The report provides an update on the relevant funds' performance as of June 30, 2014. Fund performance does not take into account the fees charged by your contract. If these fees had been included, the performance would have been lower. As always, past performance cannot predict or guarantee future returns.

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).

Thank you for placing your variable annuity contract with us.

Sincerely,

Richard Grilli

Richard W. Grilli
Senior Vice President and Chief Operating Officer

Enclosure

Zurich American
Life Insurance Company

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

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

ZURICHAMERICANLIFEINSURANCE.COM

ALGER

Inspired by Change, Driven by Growth.

A pooled funding vehicle for:

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

The Alger Portfolios

Alger Balanced Portfolio

SEMI-ANNUAL REPORT

June 30, 2014

(Unaudited)

Table of Contents

Go Paperless With Alger Electronic Delivery Service

Alger is pleased to provide you with the ability to access regulatory materials online. When documents such as prospectuses and annual and semi-annual reports are available, we'll send you an e-mail notification with a convenient link that will take you directly to the fund information on our website. To sign up for this free service, simply enroll at **www.icsdelivery.com/alger**.

Shareholders’ Letter

July 22, 2014

Dear Shareholders,

Volatility Persists as Economy Shows Signs of Growing

Equity markets in the United States and abroad produced considerable volatility during the six-month period ended June 30. In the U.S., investors assessed if economic growth in 2014 would support market levels that were driven by multiple expansion during 2013 while severe winter weather threw a cold blanket on consumer spending and real estate. Investors also struggled with uncertainty over the timing of future Federal Reserve actions to reduce fiscal stimulus. Looking abroad, Russia’s annexation of Crimea and moderating economic growth in China also supported market volatility. Later in the reporting period, an insurgency in Iraq created fears of potential disruptions to the country’s oil production. Yet, a combination of encouraging U.S. economic indicators, such as a strengthening labor market, supported investor sentiment. During the six-month period, the S&P 500 Index climbed 7.14%.

Growth Scare Rattles Stocks

Perhaps the most dramatic event during the reporting period was what we call a “growth scare.” During growth scares, investors become fearful of high-growth stocks and either liquidate their equity positions or flock to defensive stocks, such as consumer names like Wal-Mart Stores, Inc., and “old” technology names such as Microsoft Corp. or International Business Machines Corp. Investors may also favor certain pharmaceutical companies. During the recent growth scare, for example, defensive stocks Wal-Mart and Johnson & Johnson generated gains. At the same time, the NYSE Arca Biotechnology Index, which consists of high-growth biotech companies, and the Nasdaq Internet Index, which consists of high-growth Internet companies, each declined more than 19%.

We maintain that investors who were fearful of high-growth stocks during the reporting period overlooked the ability of such growth companies to rapidly expand their earnings and revenues. An overview of cloud computing, one of the most important growth trends within technology, illustrates this concept. Businesses have traditionally housed databases, servers, and other technology equipment in their own facilities. In doing so, companies have been saddled with the costs of storing their technology equipment as well as the costs of committing managerial and employee time to maintaining IT facility performance: those resources generally would be better spent focused on customers, product development, marketing, and other functions that are drivers of business. With cloud computing, vendors assume the responsibility of storing and maintaining technology that customers access remotely via the Internet. By embracing cloud computing, businesses eliminate many of the costs associated with traditional on-premises technology. That can result in cutting technology costs by 30-40%. Cloud computing, therefore, has been growing rapidly as businesses seek to contain technology costs. We estimate that cloud computing technologies now capture 3.5% of the approximately $260 billion that is spent on enterprise technology annually. By 2025, we estimate that enterprise spending will total $350 billion and that providers of cloud computing technology and services will capture 46% of that amount. In the process, they will take market share from traditional providers of on-premises technology.

As a result, we believe that traditional on-premises technology companies are likely to see their revenues and earnings decline as they lose market share to cloud vendors. The technology industry is at a tipping point where the growth and size of cloud computing is increasingly having a negative impact on the ability of traditional on-premises vendors to grow their businesses and profit margins. Thus, while many traditional vendors trade at low P/E multiples, we are cautious on the group as a whole and think that many of the companies are not attractive investments. Conversely, cloud vendors are likely to see their earnings grow quickly, and we believe that some—in particular those that become the new leaders of this wave of technology—will be superior investments as their growth in revenues and profits over the coming years "validates" their higher valuations.

The trend of new products or technology cannibalizing older products isn't unique to cloud computing. For example, online stores are rapidly capturing market share from traditional vendors, streaming video is replacing DVDs, online media and search are replacing magazine and newspaper advertising, and leading biotechnology companies are producing new drugs that are displacing older treatments. Those are examples of dynamic change within industries. Alger's investment philosophy and process have, since our founding 50 years ago, perceived dynamic change as creating attractive opportunities for investors.

Growth scares are quite common. In fact, in recent years, we've seen similar market collapses in confidence or sentiment. In each case, the scares have been temporary, and as investor confidence in the strength of the U.S. economy and in corporate fundamentals returned, so did investors' focus on companies with the strongest potential future revenue growth and fundamental business opportunities. We believe that this explains why stocks of high-growth companies have outperformed the broad market and low-growth sectors in the six- and nine-month periods following the growth scares of 2012 and 2013 (See table below).

High-Growth Companies Have Outperformed the S&P 500 Index and Other Companies in the Months Following Growth Scares.

	Growth Scare of 2012			Growth Scare of 2013		
	Performance (%)	6 Month Performance Following Growth Scare (%)	9 Month Performance Following Growth Scare (%)	Performance (%)	6 Month Performance Following Growth Scare (%)	9 Month Performance Following Growth Scare (%)
S&P 500 (SPX)	-9	10	18	-4	15	18
High-Growth Companies						
Cloud	-12	17	37	3	27	39
Biotech	1	31	61	-10	37	46
Tech Growth	-25	5	35	-15	44	70
Consumer	-10	5	16	-5	28	41
Slow-Growth Companies						
Old Tech	-11	3	6	-6	11	14
Consumer	-2	8	11	-3	7	7
Pharmaceuticals	-4	13	21	-6	7	12
Source: Thomson Reuters FactSet[1]						

[1] To compile data in the table, we looked at the largest market declines in each of the last two years. We defined scares as the time period ranging from the start of a market decline to a market bottom. The 2012 Growth Scare occurred from May 1 to June 5. The 2013 Growth Scare occurred from May 22 to June 25.

Fed Watchers Drive Market Volatility

Uncertainty over the Federal Reserve's timing for reining in stimulus also supported market volatility. Generally speaking, the Federal Reserve is expected to unwind its bond purchasing, or quantitative easing, later this year and to raise the federal funds rate next year. When encouraging economic data surfaced during the reporting period, however, some investors grew fearful that the central bank would rein in fiscal stimulus sooner than anticipated. Throughout the reporting period, we remained unconcerned about the potential for the Federal Reserve to speed up its pace for unwinding stimulus. Market interest rates remain lower or unchanged from levels of June 2012 and we believe the economy still has room to grow, even though it has made considerable progress. Major economic indicators such as jobs and inflation are not near levels of past cyclical peaks, and U.S. economic growth is stronger than in many other parts of the world.

Geopolitical Hotspots

Geopolitics also drove market volatility when Russia annexed the Crimea region of the Ukraine in mid-March. The act provoked strong criticism from the U.S. and the European Union, both of which gradually increased sanctions targeting Russia while western banks cut their credit lines to the country. Conditions continued to worsen, with pro-Russia separatists seizing control of a regional government headquarters in Luhansk in eastern Ukraine and escalating protests. As the crisis dragged on, most analysts downgraded their already modest economic growth forecasts for Russia, while foreign investors withdrew their assets from the country. Russia and the Ukraine are limited trading partners with the U.S., accounting for only $13 billion in annual exports and $27.9 billion in imports, which limits our country's ability to exert pressure through economic sanctions. Europe, however, is more closely linked to the two countries, so it has more leverage with imposing sanctions. One possible long-term benefit to the U.S. of the crisis is that Europe, which receives over 30% of its gas from Russia, may turn to the U.S. for energy commodities, which could help support our country's already robust resurgence in the energy industry.

An insurgency in Iraq also generated concerns as investors feared that the turmoil could disrupt energy production in that country. We note that our country has been increasing its own oil production while boosting energy efficiency, so it is becoming less dependent on imported energy commodities, which could mute the impact of higher prices of foreign oil on the U.S. economy. At the same time, a disruption in oil production in Iraq could benefit energy companies with dependable access to natural resources in stable countries such as Canada, Norway, Australia, and the U.S.

China Growth Moderates

The rapid growth of China's economy in recent years has been viewed as a major driver of global economic expansion. The country's gross domestic product (GDP) grew at a higher-than-expected rate of 7.7% in 2013, yet data in the first quarter portrayed an economy that was weakening into 2014. China's National People's Congress in March, furthermore, lowered the country's official growth target for 2014 to 7.5%. Yet China produced stable macroeconomic releases during the last three months of the reporting period, quelling fears of a massive slowdown. Toward quarter-end, the People's Bank of China announced targeted cuts to the required reserve ratio, lowering it 50 basis points for banks with certain minimum exposures to loans for smaller companies and agriculture, and on June 30 banking regulators announced new rules on the calculation of loan-to-deposit ratios, implying a slight loosening of policy.

We note that any future moderation of economic expansion in China may have a silver lining. In the past, the country's economic growth has fueled massive demand and higher prices for commodities and other resources. A slower Chinese economy, however, may reduce inflationary pressures in many important areas which, in turn, would be supportive of U.S. businesses and consumers.

Reasons for Optimism

Alger believes that issues such as Russia and the Ukraine will continue to drive market volatility that will create attractive buying opportunities for equity investors. We also maintain that the U.S. economy is stronger than commonly believed. During the reporting period, U.S. unemployment dropped from 6.7% to 6.3% and the number of private-sector employees reached a record high of 116.6 million, according to Cornerstone Macro LP. That exceeded a recent record of 116.4 million, which was the highest level since January of 2008, when private-sector employment climbed to 116 million. Total employment during May reached 138.5 million, exceeding the January of 2008 record high of 138.4 million, and strengthening budgets for many states and municipalities suggest that public employers may increase hiring. Improvements in the job market and strong stock market gains during the past few years, meanwhile, pushed the Conference Board's March Consumer Sentiment Index to 85.2 in June, its highest level since January 2008.

Another force is also supporting the U.S. economy—a rapidly growing energy industry that is benefiting from new technology, such as hydraulic fracturing, which is making additional reserves of oil and natural gas economically feasible for extraction and is reversing a long trend of declining domestic production. From 1970 to 2008, U.S. oil production declined from 9.6 million barrels a day to only 5 million—a level not experienced since 1949. Since 2008, however, it has rapidly increased, reaching 7.4 million barrels a day as of last year. Natural gas production is also surging, climbing from 49,454 BCF (billion cubic feet) per day in 2005 to 66,768 BCF in 2013. We estimate that with growing energy production, domestic resources are on track to meet 96% of the country's energy demand by 2020.

The surge in energy production is doing more than just creating jobs: it's lowering energy costs for U.S. businesses, which is helping to drive a manufacturing renaissance. Just recently, the Boston Consulting Group, citing low energy costs and a lack of upward pressure on labor wages, ranked the U.S. as the second-most competitive country for manufacturing, trailing only China. Certain manufacturers, moreover, are moving their operations from China to the U.S. For example, the Keer Group, which operates a yarn spinning factory in China, plans to build a $218 million factory in North Carolina that will employ 500 workers. Its electric costs will be half of what it pays in China, according to Cornerstone Macro. The strength of manufacturing in the U.S. should not be underestimated—according to the Institute for Supply Management, economic activity in the manufacturing sector expanded in June for the thirteenth consecutive month.

Economic expansion in Europe, while slow, is continuing. The Markit Purchasing Managers' Index for Europe declined to 52.8 in June from 53.5 in May. It is important to note that any reading above 50 indicates growth and that June was the eleventh consecutive month that the index has stayed above that level.

Across the Pacific, the Bank of Japan is continuing with its aggressive quantitative easing. The Japanese economy is only about one-third the size of the U.S., but its quantitative easing program allows the Bank of Japan to spend approximately $68 billion each month to buy bonds, real estate investment trusts, and exchange traded funds. In comparison, the U.S. program at its peak was $85 billion a month. The Japanese program is likely to devalue the yen, which would support the country's export levels.

Going Forward

We believe the recent growth scare has created an attractive opportunity for fundamental, research-driven investors to buy equities. Our analysts and portfolio managers are working hard within our proven research-driven investment strategy to identify companies that are best positioned to grow and lead their industries while delivering superior investment returns to their shareholders.

Portfolio Matters

The Alger Balanced Portfolio returned 5.26% for the six-month period ended June 30, 2014. The equity portion of the Portfolio outperformed the 6.31% return of the Russell 1000 Growth Index, and the fixed-income portion trailed the 3.94% return of the Barclays Capital U.S. Government/Credit Bond Index.

Regarding the equity portion of the Portfolio, the largest sector weightings were Information Technology and Financials. 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 Industrials and Consumer Staples were among sectors that detracted from results.

Among the most important relative contributors were Royal Dutch Shell PLC; ConocoPhillips; Wells Fargo & Co.; Johnson & Johnson; and Intel Corp. Royal Dutch Shell generates a substantial portion of its revenues from extracting oil. Those operations become more profitable as energy prices increase. During the second half of the reporting period, fears that the Ukraine conflict and the insurgency in Iraq would curtail oil supplies drove prices for the commodity upward, which supported the stock price of Royal Dutch Shell.

Conversely, detracting from overall results on a relative basis were Microsoft Corp.; General Electric Co.; CME Group, Inc.; and Copa Holdings SA, Cl. A. Shares of Apollo Global Management LLC, Cl. A also detracted from performance. The company manages private equity, credit, and real estate assets. Its shares detracted from performance in the wake of executive departures driven by compensation scheme changes while investors' near-term focus on a decline in distributable earnings from the unsustainably high levels of last year was also detrimental to results.

Regarding the fixed-income portion of the Portfolio, as of June 30, 2014, 90.3% was in corporate securities and 9.7% was in U.S. Treasuries. During the reporting period, the number of securities held was reduced from 18 to 17.

In the first six months of 2014, U.S. government bonds consistently benefitted from stronger-than-expected supply and demand technicals and weaker-than-expected economic fundamentals. After falling 3.35% in 2013, the BofA/Merrill Lynch Treasury Index recovered nearly all of last year's losses, generating 3.22% total return in the first half of 2014. Historically, credit spreads have widened during periods of falling Treasury yields, but that relationship has not been present in 2014. The BofA/Merrill Lynch U.S. Corporate Index options adjusted spread has narrowed by 19 basis points since the beginning of the year, which has contributed positively to the index's nominal total return of 5.95% and excess return of 191 basis points through June 30. We continue to maintain a portfolio structure that features a short duration with a concentration in high quality, liquid corporates.

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

Sincerely,

Daniel C. Chung, CFA
Chief Investment Officer
Fred Alger Management, Inc.

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

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 Alger Portfolios. This report is not authorized for distribution to prospective investors in the Portfolios unless proceeded or accompanied by an effective prospectus for the Portfolios. The 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 in these materials represent past performance, which is not an indication or guarantee of future results.

Standard performance results can be found on the following pages. The investment return and principal value of an investment in a Portfolio will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. For performance data current to the most recent month-end, visit us at www.alger.com, or call us at (800) 992-3863.
The views and opinions of the Portfolios' management in this report are as of the date of the Shareholders' Letter and are subject to change at any time subsequent to this date. There is no guarantee that any of the assumptions that formed the basis for the opinions stated herein are accurate or that they will materialize. Moreover, the information forming the basis for such assumptions is from sources believed to be reliable; however, there is no guarantee that such information is accurate. Any securities mentioned, whether owned in a Portfolio or otherwise, are considered in the context of the construction of an overall portfolio of securities and therefore reference to them should not be construed as a recommendation or offer to purchase or sell any such security. Inclusion of such securities in a Portfolio and transactions in such securities, if any, may be for a variety of reasons, including without limitation, in response to cash flows, inclusion in a benchmark, and risk control. The reference to a specific security should also be understood in such context and not viewed as a statement that the security is a significant holding in a

Portfolio. Please refer to the Schedule of Investments for each Portfolio which is included in this report for a complete list of Portfolio holdings as of June 30, 2014. 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. Investing in foreign securities involves additional risk (including currency risk, risks related to political, social or economic conditions, and risks associated with foreign markets, such as increased volatility, limited liquidity, less stringent regulatory and legal system, and lack of industry and country diversification), and may not be suitable for all investors. Investing in emerging markets involves higher levels of risk, including increased information, market, and valuation risks, and may not be suitable for all investors. 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 issuer's falling credit rating or actual default. 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. Portfolios that participate in leveraging, such as Alger Capital Appreciation and Alger SMid Cap Portfolios, are subject to the risk that borrowing money to leverage will exceed the returns for securities purchased or that the securities purchased may actually go down in value; thus, Portfolio net asset values can decrease more quickly than if a Portfolio had not borrowed. For a more detailed discussion of the risks associated with a Portfolio, please see the Portfolio's Prospectus.

Before investing, carefully consider a 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.

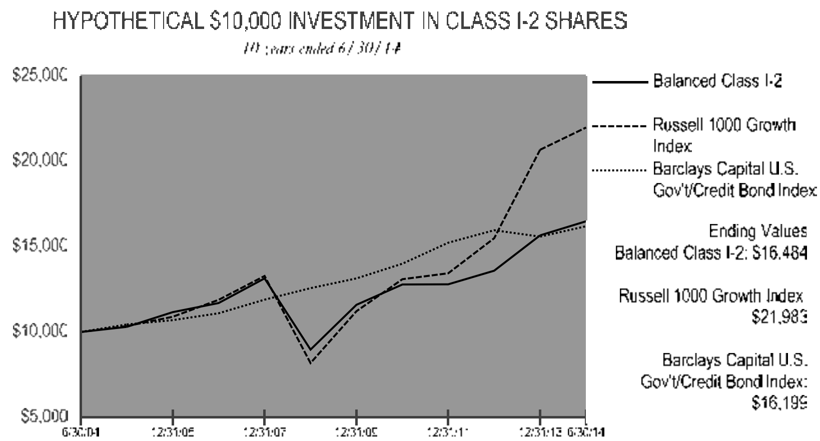
NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.

Definitions:

- The S&P 500 Index is an unmanaged index generally representative of the U.S. stock market without regard to company size.
- The NYSE Arca Biotechnology IndexSM is an equal dollar-weighted index designed to measure the performance of a cross section of companies in the biotechnology industry that are primarily involved in the use of biological processes to develop products or provide services.
- The NASDAQ Internet Index is a modified market capitalization-weighted index designed to track the performance of the largest and most liquid U.S.-

listed companies engaged in internet-related businesses and that are listed on the NASDAQ Stock Market, the New York Stock Exchange (NYSE) or NYSE Amex.

- Cornerstone Macro is an economic research firm.
- The Conference Board's Consumer Sentiment Index measures consumers' near term outlook of the economy.
- The Boston Consulting Group is a global management consulting firm.
- The Institute for Supply Management is a not-for-profit organization that provides education and research on issues regarding the supply of resources that organizations need to attain their objectives.
- Markit is a global, diversified provider of financial information. The Markit Purchasing Managers' Index provides insight into the private sector economy by tracking variables such as output, new orders, employment and prices across key sectors.
- 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 BofA/Merrill Lynch Treasury Index is an unmanaged index of U.S. Treasury securities with remaining maturities between seven and 10 years.
- The BofA Merrill Lynch U.S. Corporate Index tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market.



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, 2014. 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 6/30/14

AVERAGE ANNUAL TOTAL RETURNS

	1 YEAR	5 YEARS	10 YEARS	Since 9/5/1989
Class I-2 (Inception 9/5/89)	15.21%	10.69%	5.12%	7.64%
Russell 1000 Growth Index	26.92%	19.24%	8.20%	9.03%
Barclays Capital U.S. Gov't/Credit Bond Index	4.28%	5.09%	4.94%	6.65%

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 performance current to the most recent month end, 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 policy 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, 2014 (Unaudited)

SECTORS/SECURITY TYPES	Alger Balanced Portfolio
Consumer Discretionary	8.5%
Consumer Staples	7.0
Energy	7.1
Financials	9.5
Health Care	7.6
Industrials	7.5
Information Technology	11.8
Materials	1.6
Telecommunication Services	2.2
Utilities	0.7
Total Equity Securities	63.5
Corporate Bonds	28.1
U.S. Government & Agency Obligations (excluding Mortgage Backed)	3.0
Total Debt Securities	31.1
Short-Term Investments and Net Other Assets	5.4
	100.0%

† *Based on net assets for each Portfolio.*

COMMON STOCKS—61.0%	SHARES	VALUE
ADVERTISING—0.3%		
Lamar Advertising Co., Cl. A	6,200	$ **328,600**
AEROSPACE & DEFENSE—2.6%		
General Dynamics Corp.	4,500	524,475
Honeywell International, Inc.	11,600	1,078,220
The Boeing Co.	7,500	954,225
		2,556,920
AIR FREIGHT & LOGISTICS—0.5%		
United Parcel Service, Inc., Cl. B	4,800	**492,768**
AIRLINES—0.4%		
Copa Holdings SA, Cl. A	3,000	**427,710**
APPAREL RETAIL—0.4%		
L Brands, Inc.	5,800	**340,228**
ASSET MANAGEMENT & CUSTODY BANKS—1.4%		
Ameriprise Financial, Inc.	5,100	612,000
BlackRock, Inc.	2,400	767,040
		1,379,040
AUTO PARTS & EQUIPMENT—1.0%		
Delphi Automotive PLC.	10,400	714,896
Johnson Controls, Inc.	6,000	299,580
		1,014,476
AUTOMOBILE MANUFACTURERS—0.4%		
General Motors Co.	9,400	**341,220**
BIOTECHNOLOGY—0.5%		
Amgen, Inc.	4,400	**520,828**
CABLE & SATELLITE—1.3%		
Comcast Corporation, Cl. A	16,100	864,248
Time Warner Cable, Inc.	2,600	382,980
		1,247,228
CASINOS & GAMING—0.6%		
Las Vegas Sands Corp.	7,700	**586,894**
COMMUNICATIONS EQUIPMENT—1.7%		
Cisco Systems, Inc.	32,100	797,685
QUALCOMM, Inc.	10,200	807,840
		1,605,525
CONSUMER FINANCE—0.5%		
Discover Financial Services	7,500	**464,850**
DATA PROCESSING & OUTSOURCED SERVICES—0.5%		
Xerox Corp.	37,000	**460,280**
DIVERSIFIED BANKS—2.8%		
JPMorgan Chase & Co.	24,700	1,423,214
Wells Fargo & Co.	25,500	1,340,280
		2,763,494

COMMON STOCKS—(CONT.)	SHARES	VALUE
DIVERSIFIED CHEMICALS—0.5%		
The Dow Chemical Co.	10,100	$ **519,746**
DRUG RETAIL—0.9%		
CVS Caremark Corp.	11,000	**829,070**
ELECTRIC UTILITIES—0.7%		
The Southern Co.	13,900	**630,782**
ELECTRICAL COMPONENTS & EQUIPMENT—0.5%		
Eaton Corp., PLC.	6,400	**493,952**
FERTILIZERS & AGRICULTURAL CHEMICALS—0.3%		
Potash Corporation of Saskatchewan, Inc.	8,600	**326,456**
GENERAL MERCHANDISE STORES—0.6%		
Target Corp.	10,300	**596,885**
HEALTH CARE EQUIPMENT—0.5%		
St. Jude Medical, Inc.	7,500	**519,375**
HOME IMPROVEMENT RETAIL—1.1%		
The Home Depot, Inc.	12,700	**1,028,192**
HOTELS RESORTS & CRUISE LINES—0.3%		
Royal Caribbean Cruises Ltd.	5,700	**316,920**
HOUSEHOLD PRODUCTS—0.9%		
The Procter & Gamble Co.	11,600	**911,644**
HYPERMARKETS & SUPER CENTERS—0.7%		
Wal-Mart Stores, Inc.	9,200	**690,644**
INDUSTRIAL CONGLOMERATES—1.6%		
General Electric Co.	57,400	**1,508,472**
INTEGRATED OIL & GAS—3.8%		
Exxon Mobil Corp.	20,500	2,063,940
Royal Dutch Shell PLC.#	20,000	1,647,400
		3,711,340
INTEGRATED TELECOMMUNICATION SERVICES—2.2%		
AT&T, Inc.	19,900	703,664
Verizon Communications, Inc.	28,708	1,404,682
		2,108,346
INTERNET SOFTWARE & SERVICES—1.6%		
Google, Inc., Cl. A*	1,300	760,071
Google, Inc., Cl. C*	1,300	747,864
		1,507,935
INVESTMENT BANKING & BROKERAGE—1.0%		
Morgan Stanley	30,900	**998,997**
IT CONSULTING & OTHER SERVICES—0.8%		
International Business Machines Corp.	4,300	**779,461**
LEISURE FACILITIES—0.6%		
Six Flags Entertainment Corp.	14,400	**612,720**
LEISURE PRODUCTS—0.3%		
Hasbro, Inc.	5,500	**291,775**

COMMON STOCKS—(CONT.)	SHARES	VALUE
LIFE & HEALTH INSURANCE—0.3%		
Prudential Financial, Inc.	3,700	$ **328,449**
MANAGED HEALTH CARE—0.9%		
Aetna, Inc.	10,300	**835,124**
OIL & GAS EQUIPMENT & SERVICES—0.9%		
Halliburton Company	11,700	**830,817**
OIL & GAS EXPLORATION & PRODUCTION—1.5%		
ConocoPhillips	12,600	1,080,198
Denbury Resources, Inc.	20,300	374,738
		1,454,936
OIL & GAS REFINING & MARKETING—0.4%		
HollyFrontier Corp.	8,100	**353,889**
OIL, GAS & CONSUMABLE FUELS—0.5%		
The Williams Cos., Inc.	7,800	**454,038**
PACKAGED FOODS & MEATS—0.3%		
Kraft Foods Group, Inc.	5,500	**329,725**
PHARMACEUTICALS—5.7%		
AbbVie, Inc.	12,500	705,500
Eli Lilly & Co.	12,700	789,559
Johnson & Johnson	14,500	1,516,990
Merck & Co., Inc.	16,400	948,740
Pfizer, Inc.	35,789	1,062,218
Roche Holding AG#	14,800	552,040
		5,575,047
RAILROADS—1.1%		
CSX Corp.	33,400	**1,029,054**
REGIONAL BANKS—0.3%		
Regions Financial Corp.	29,500	**313,290**
RESTAURANTS—1.2%		
Darden Restaurants, Inc.	6,800	314,636
McDonald's Corp.	8,900	896,586
		1,211,222
SECURITY & ALARM SERVICES—0.8%		
Tyco International Ltd.	16,400	**747,840**
SEMICONDUCTOR EQUIPMENT—0.5%		
Kla-Tencor Corp.	6,900	**501,216**
SEMICONDUCTORS—1.4%		
Avago Technologies Ltd.	5,500	396,385
Intel Corp.	31,100	960,990
		1,357,375
SOFT DRINKS—2.6%		
PepsiCo, Inc.	14,800	1,322,232
The Coca-Cola Co.	27,400	1,160,664
		2,482,896

COMMON STOCKS—(CONT.)	SHARES	VALUE
SPECIALIZED FINANCE—0.7%		
CME Group, Inc.	9,600	$ **681,120**
SPECIALTY CHEMICALS—0.8%		
Rockwood Holdings, Inc.	9,600	**729,504**
SPECIALTY STORES—0.4%		
Tiffany & Co.	4,000	**401,000**
SYSTEMS SOFTWARE—1.6%		
Microsoft Corp.	36,200	**1,509,540**
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—3.7%		
Apple, Inc.	31,500	2,927,295
Seagate Technology PLC.	11,600	659,112
		3,586,407
TOBACCO—1.6%		
Altria Group, Inc.	24,100	1,010,754
Lorillard, Inc.	8,300	506,051
		1,516,805
TOTAL COMMON STOCKS		
(Cost $47,499,761)		**59,142,067**

MASTER LIMITED PARTNERSHIP—1.0%	SHARES	VALUE
ASSET MANAGEMENT & CUSTODY BANKS—1.0%		
The Blackstone Group LP.	30,000	**1,003,200**
(Cost $688,374)		**1,003,200**

REAL ESTATE INVESTMENT TRUST—1.5%	SHARES	VALUE
HEALTH CARE—0.6%		
Health Care REIT, Inc.	8,900	**557,763**
RETAIL—0.4%		
Simon Property Group, Inc.	2,600	**432,328**
SPECIALIZED—0.5%		
Plum Creek Timber Co., Inc.	10,000	**451,000**
TOTAL REAL ESTATE INVESTMENT TRUST		
(Cost $1,434,430)		**1,441,091**

CORPORATE BONDS—28.1%	PRINCIPAL AMOUNT	VALUE
AGRICULTURAL PRODUCTS—1.2%		
Cargill, Inc., 7.35%, 3/6/2019[L2(a)]	1,000,000	**1,206,193**
COMMUNICATIONS EQUIPMENT—1.3%		
Cisco Systems, Inc., 3.63%, 3/4/2024[L2]	1,250,000	**1,287,432**
COMPUTER HARDWARE—4.1%		
Dell, Inc., 3.10%, 4/1/2016[L2]	1,750,000	1,793,750
Hewlett-Packard Co., 4.38%, 9/15/2021[L2]	2,000,000	2,147,844
		3,941,594

CORPORATE BONDS—(CONT.)	PRINCIPAL AMOUNT		VALUE
CONSTRUCTION & FARM MACHINERY & HEAVY TRUCKS—1.8%			
John Deere Capital Corp., 2.75%, 3/15/2022[L2]	1,750,000	**$**	**1,738,338**
DIVERSIFIED BANKS—2.4%			
Wachovia Corp., 5.75%, 2/1/2018[L2]	2,000,000		**2,291,470**
HEALTH CARE EQUIPMENT—2.1%			
Baxter International, Inc., 3.20%, 6/15/2023[L2]	2,000,000		**1,987,500**
INDUSTRIAL CONGLOMERATES—2.4%			
General Electric Capital Corp., 6.00%, 8/7/2019[L2]	2,000,000		**2,371,750**
INTEGRATED OIL & GAS—2.3%			
Total Capital SA, 4.45%, 6/24/2020[L2]	2,000,000		**2,234,168**
INTEGRATED TELECOMMUNICATION SERVICES—3.1%			
AT&T, Inc., 2.63%, 12/1/2022[L2]	1,500,000		1,439,927
Verizon Communications, Inc., 6.35%, 4/1/2019[L2]	1,300,000		1,538,997
			2,978,924
INVESTMENT BANKING & BROKERAGE—1.8%			
The Goldman Sachs Group, Inc., 5.75%, 1/24/2022[L2]	1,500,000		**1,738,487**
IT CONSULTING & OTHER SERVICES—1.5%			
International Business Machines Corp., 1.88%, 8/1/2022[L2]	1,525,000		**1,405,734**
OTHER DIVERSIFIED FINANCIAL SERVICES—2.2%			
JPMorgan Chase & Co., 4.35%, 8/15/2021[L2]	2,000,000		**2,169,008**
PACKAGED FOODS & MEATS—1.9%			
Campbell Soup Co., 2.50%, 8/2/2022[L2]	2,000,000		**1,885,116**
TOTAL CORPORATE BONDS			
(Cost $27,025,839)			**27,235,714**

U.S. TREASURY OBLIGATIONS—3.0%	PRINCIPAL AMOUNT		VALUE
4.25%, 11/15/14[L2]	1,900,000		1,929,539
4.50%, 2/15/16[L2]	940,000		1,004,038
TOTAL U.S. TREASURY OBLIGATIONS			
(Cost $2,899,542)			**2,933,577**
Total Investments			
(Cost $79,547,946)[(b)]	94.6%		**91,755,649**
Other Assets in Excess of Liabilities	5.4%		**5,227,034**
NET ASSETS	100.0%	**$**	**96,982,683**

‡ *Securities classified as Level 1 for ASC 820 disclosure purposes based on valuation inputs unless otherwise noted.*
\# *American Depositary Receipts.*
* *Non-income producing security.*
L2 *Security classified as Level 2 for ASC 820 disclosure purposes based on valuation inputs.*
(a) *Pursuant to Securities and Exchange Commission Rule 144A, these securities may be sold prior to their maturity only to qualified institutional buyers. These securities are deemed to be liquid and represent 1.2% of the net assets of the Portfolio.*
(b) *At June 30, 2014, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $79,496,057, amounted to $12,259,592 which consisted of aggregate gross unrealized appreciation of $12,727,210 and aggregate gross unrealized depreciation of $467,618.*

See Notes to Financial Statements.

THE ALGER PORTFOLIOS
Statement of Assets and Liabilities June 30, 2014 (Unaudited)

		Alger Balanced Portfolio
ASSETS:		
Investments in securities, at value (Identified cost below)* see accompanying schedules of investments	$	91,755,649
Cash and cash equivalents		4,196,325
Receivable for investment securities sold		1,297,514
Receivable for shares of beneficial interest sold		16,541
Dividends and interest receivable		409,601
Prepaid expenses		8,458
Total Assets		97,684,088
LIABILITIES:		
Payable for investment securities purchased		461,405
Payable for shares of beneficial interest redeemed		126,417
Accrued investment advisory fees		58,384
Accrued transfer agent fees		5,621
Accrued administrative fees		2,261
Accrued shareholder administrative fees		822
Accrued other expenses		46,495
Total Liabilities		701,405
NET ASSETS	**$**	**96,982,683**
NET ASSETS CONSIST OF:		
Paid in capital (par value of $.001 per share)		94,624,472
Undistributed net investment income		2,370,352
Undistributed net realized gain (accumulated realized loss)		(12,219,844)
Net unrealized appreciation on investments		12,207,703
NET ASSETS	**$**	**96,982,683**
* Identified cost	$	79,547,946

See Notes to Financial Statements.

		Alger Balanced Portfolio
NET ASSETS BY CLASS:		
Class I-2	$	96,982,683
SHARES OF BENEFICIAL INTEREST OUTSTANDING — NOTE 6:		
Class I-2		6,831,847
NET ASSET VALUE PER SHARE:		
Class I-2 — Net Asset Value Per Share	$	14.20

See Notes to Financial Statements.

THE ALGER PORTFOLIOS
Statement of Operations for the six months ended June 30, 2014
(Unaudited)

		Alger Balanced Portfolio
INCOME:		
Dividends (net of foreign withholding taxes*)	$	1,073,922
Interest		401,465
Total Income		1,475,387
EXPENSES:		
Advisory fees — Note 3(a)		333,471
Shareholder administrative fees — Note 3(f)		4,697
Administration fees — Note 3(b)		12,916
Custodian fees		15,760
Transfer agent fees and expenses		10,765
Printing fees		5,575
Professional fees		18,956
Registration fees		2,945
Trustee fees — Note 3(g)		11,842
Fund accounting fees		3,769
Miscellaneous		6,699
Total Expenses		427,395
NET INVESTMENT INCOME		1,047,992
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OPTIONS AND FOREIGN CURRENCY:		
Net realized gain on investments and purchased options		1,369,294
Net change in unrealized appreciation on investments, options and foreign currency		2,401,470
Net realized and unrealized gain on investments, options, and foreign currency		3,770,764
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**4,818,756**
* Foreign withholding taxes	$	8,543

See Notes to Financial Statements.

THE ALGER PORTFOLIOS
Statements of Changes in Net Assets (Unaudited)

	Alger Balanced Portfolio	
	For the Six Months Ended June 30, 2014	For the Year Ended December 31, 2013
Net investment income	$ 1,047,992	$ 1,466,267
Net realized gain on investments, options and foreign currency	1,369,294	6,760,024
Net change in unrealized appreciation on investments, options and foreign currency	2,401,470	5,229,266
Net increase in net assets resulting from operations	4,818,756	13,455,557
Dividends and distributions to shareholders from:		
Net investment income:		
Class I-2	—	(1,104,450)
Total dividends and distributions to shareholders	—	(1,104,450)
Increase (decrease) from shares of beneficial interest transactions:		
Class I-2	(3,412,674)	(9,903,212)
Net decrease from shares of beneficial interest transactions — Note 6	(3,412,674)	(9,903,212)
Total increase	1,406,082	2,447,895
Net Assets:		
Beginning of period	95,576,601	93,128,706
END OF PERIOD	**$ 96,982,683**	**$ 95,576,601**
Undistributed net investment income	$ 2,370,352	$ 1,389,652

See Notes to Financial Statements.

Alger Balanced Portfolio

	Class I-2					
	Six months ended 6/30/2014(i)	Year ended 12/31/2013	Year ended 12/31/2012	Year ended 12/31/2011	Year ended 12/31/2010	Year ended 12/31/2009
Net asset value, beginning of period	$ 13.49	$ 11.84	$ 11.31	$ 11.61	$ 10.79	$ 8.64
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income(ii)	0.15	0.20	0.13	0.14	0.28	0.25
Net realized and unrealized gain (loss) on investments	0.56	1.61	0.56	(0.12)	0.82	2.21
Total from investment operations	0.71	1.81	0.69	0.02	1.10	2.46
Dividends from net investment income	–	(0.16)	(0.16)	(0.32)	(0.28)	(0.31)
Net asset value, end of period	$ 14.20	$ 13.49	$ 11.84	$ 11.31	$ 11.61	$ 10.79
Total return	5.26%	15.28%	6.23%	0.03%	10.33%	29.25%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000's omitted)	$ 96,983	$ 95,577	$ 93,129	$ 101,811	$ 119,804	$ 127,756
Ratio of gross expenses to average net assets	0.91%	0.95%	0.95%	0.93%	0.91%	0.89%
Ratio of expense reimbursements to average net assets	–	–	–	(0.04)%	(0.04)%	(0.04)%
Ratio of net expenses to average net assets	0.91%	0.95%	0.95%	0.89%	0.87%	0.85%
Ratio of net investment income (loss) to average net assets	2.23%	1.56%	1.13%	1.20%	2.60%	2.60%
Portfolio turnover rate	11.15%	71.66%	122.50%	102.79%	69.30%	104.04%

See Notes to Financial Statements.

(i) *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 qualifies as an investment company as defined in Accounting Standards Codification 946 Financial Services – Investment Companies. The Fund operates as a series company currently issuing seven series of shares of beneficial interest: 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. The Portfolio are available as 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 value its financial instruments at fair value using independent dealers or pricing services under policies approved by the Fund's 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 Fund may also fair value securities in other situations, for example, when a particular foreign market is closed but the Fund 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 indexes.

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

While the Committee meets on an as-needed basis, the Committee formally 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, foreign cash 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 in its prospectuses. 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 with the Custodian 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 Custodian and any excess collateral is returned to the borrower on the next business day. In the event the borrower fails to return the loaned securities when due, the Portfolio may take the collateral to replace the securities. If the value of the collateral is less than the purchase cost of replacement securities, the Custodian shall be responsible for any shortfall, but only to the extent that the shortfall is not due to any diminution in collateral value, as defined in the securities lending agreement. 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.

(f) Dividends to Shareholders: Dividends and distributions payable to shareholders are recorded by the Portfolio on the ex-dividend date.

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

The characterization of distributions to shareholders for financial reporting purposes is determined in accordance with federal income tax rules. 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.

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

Financial Accounting Standards Board Accounting Standards Codification 740 – Income Taxes ("ASC 740") requires the Portfolio to measure and recognize in their 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., as well as New York State and New York City. The statute of limitations on the Portfolio's tax returns remains open for the tax years 2010-2013. Management does not believe there are any uncertain tax positions that require recognition of a tax liability.

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

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

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

(a) Investment Advisory Fees: The fees incurred by the Portfolio, pursuant to the provisions of the Fund's Investment Advisory Agreement with Fred Alger Management, Inc., 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, 2014, is set forth below under the heading "Actual Rate."

	Tier 1	Tier 2	Actual Rate
Alger Balanced Portfolio(a)	0.710%	0.550%	0.710%

(a) *Tier 1 rate is paid on assets up to $1 billion and Tier 2 rate is paid on assets in excess of $1 billion.*

(b) Administration Fees: Fees incurred by the Portfolio, pursuant to the provisions of the Fund's Administration Agreement with Fred Alger Management, Inc., 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, 2014, the Portfolio paid Alger Inc. $4,879, in connection with securities transactions.

(d) 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 Portfolios. There were no interfund loans outstanding during the period ended June 30, 2014.

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

(f) 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.

(g) Trustee Fees: From January 1, 2014 through March 5, 2014, each Portfolio paid 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 received an additional annual fee of $22,500 which was paid, pro rata, by all U.S.-registered funds managed by Alger Management. Additionally, each member of the Portfolio's audit committee received $75 from the Portfolio for each audit committee meeting attended, to a maximum of $300 per annum.

Effective March 6, 2014, each Portfolio pays each trustee who is not affiliated with Alger Management or its affiliates $950 for each meeting attended, to a maximum of $3,800 per annum, plus travel expenses incurred for attending the meeting. The Chairman of the Board receives an additional annual fee of $24,300 which is paid, pro rata, by all U.S.-registered funds sponsored by Alger Management. Additionally, each member of the Portfolio's audit committee receives $81 from the Portfolio for each audit committee meeting attended, to a maximum of $324 per annum.

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, 2014, were as follows:

	PURCHASES	SALES
Alger Balanced Portfolio	$10,313,173	$13,982,692

NOTE 5 — Borrowings:

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(d). For the period ended June 30, 2014, the Portfolio had no borrowings.

NOTE 6 — Share Capital:

The Portfolio has an unlimited number of authorized shares of beneficial interest of $.001 par value. During the six months ended June 30, 2014 and the year ended December 31, 2013, transactions of shares of beneficial interest were as follows:

	FOR THE SIX MONTHS ENDED JUNE 30, 2014		FOR THE YEAR ENDED DECEMBER 31, 2013	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Balanced Portfolio				
Class I-2:				
Shares sold	252,787	$ 3,434,718	490,939	$ 6,267,348
Dividends reinvested	—	—	82,792	1,104,449
Shares redeemed	(504,482)	(6,847,392)	(1,358,736)	(17,275,009)
Net decrease	**(251,695)**	**$ (3,412,674)**	**(785,005)**	**$ (9,903,212)**

NOTE 7 — Income Tax Information:

At December 31, 2013, 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.

Expiration Dates	Alger Balanced Portfolio
2017	$ 13,634,115
Total	13,634,115

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.

During the year ended December 31, 2013 the Portfolio utilized $6,725,793 of its capital loss carryforwards.

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, 988 currency transactions, the tax treatment of partnerships investments, the realization of unrealized appreciation of Passive Foreign Investment 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, 2014, 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	$ 8,317,360	$ 8,317,360	—	—
Consumer Staples	6,760,784	6,760,784	—	—
Energy	6,805,020	6,805,020	—	—
Financials	6,929,240	6,929,240	—	—
Health Care	7,450,374	7,450,374	—	—
Industrials	7,256,716	7,256,716	—	—
Information Technology	11,307,739	11,307,739	—	—
Materials	1,575,706	1,575,706	—	—
Telecommunication Services	2,108,346	2,108,346	—	—
Utilities	630,782	630,782	—	—
TOTAL COMMON STOCKS	**$ 59,142,067**	**$ 59,142,067**	**—**	**—**
CORPORATE BONDS				
Consumer Staples	3,091,309	—	3,091,309	—
Energy	2,234,168	—	2,234,168	—
Financials	6,198,965	—	6,198,965	—
Health Care	1,987,500	—	1,987,500	—
Industrials	4,110,088	—	4,110,088	—
Information Technology	6,634,760	—	6,634,760	—
Telecommunication Services	2,978,924	—	2,978,924	—
TOTAL CORPORATE BONDS	**$ 27,235,714**	**—**	**$ 27,235,714**	**—**
MASTER LIMITED PARTNERSHIP				
Financials	1,003,200	1,003,200	—	—
REAL ESTATE INVESTMENT TRUST				
Financials	1,441,091	1,441,091	—	—
U.S. TREASURY OBLIGATIONS				
U.S. Government & Agency	2,933,577	—	2,933,577	—
TOTAL INVESTMENTS IN SECURITIES	**$ 91,755,649**	**$ 61,586,358**	**$ 30,169,291**	**—**

On June 30, 2014there were no transfers of securities between Level 1 and 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, 2014, such assets are categorized within the disclosure hierarchy as follows:

	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
Cash, Foreign cash and Cash equivalents:				
Alger Balanced Portfolio	$ 4,196,325	$ 4,196,325	—	—

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, a 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, may also buy and sell call and put options on equities and equity indices. The Portfolio may purchase call options to increase its exposure to the stock market and also provide diversification of risk. The Portfolio may purchase put options in order to protect from significant market declines that may occur over a short period of time. The Portfolio may 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, 2014, the Portfolio had no derivative instruments.

NOTE 10 — Subsequent Events:

Management of each Portfolio has evaluated events that have occurred subsequent to June 30, 2014 through the issuance date of the Financial Statements. No such events have been identified which require recognition and/or 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, 2014 and ending June 30, 2014.

Actual Expenses

The first line 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 in the table below provides information about hypothetical account values and hypothetical expenses based on the Portfolio's actual expense ratios 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 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, 2014	Ending Account Value June 30, 2014	Expenses Paid During the Six Months Ended June 30, 2014[(a)]	Annualized Expense Ratio For the Six Months Ended June 30, 2014[(b)]
Alger Balanced Portfolio					
Class I-2	Actual	$ 1,000.00	$ 1,052.63	$ 4.63	0.91%
	Hypothetical[(c)]	1,000.00	1,020.28	4.56	0.91

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

(b) Annualized.

(c) 5% annual return before expenses.

Privacy Policy

U.S. Consumer Privacy Notice Rev. 01/2011 **3/31/11**

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**

Who we are	
Who is providing this notice?	Alger includes 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 Global Growth Fund.

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 Global 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 Portfolios' 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 portfolio holdings which have not previously been made public to individual investors, institutional investors, intermediaries that distribute the Portfolios' shares and other parties which are not employed by the Manager or its affiliates except when the legitimate business purposes for selective disclosure and other conditions (designed to protect the Portfolio) are acceptable.

The Portfolio makes 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 Portfolios' fiscal quarter. The Portfolios Forms N-Q are available online on the SEC's website at www.sec.gov or may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information regarding the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330.

In addition, the Portfolio makes publicly available its month-end top 10 holdings with a 15 day lag and their month-end full portfolios 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 portfolio holdings information.

In accordance with the foregoing, the Portfolio provides portfolio 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 Fund will communicate with these service providers to confirm that they understand the Portfolios' 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 Portfolios 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, the Manager 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 the Fund's portfolio versus its respective index and security specific impact on overall portfolio performance. Please contact the Fund at (800) 992-3863 to obtain such information.

THE ALGER PORTFOLIOS

360 Park Avenue South
New York, NY 10010
(800) 992-3862
www.alger.com

Investment Advisor

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

Distributor

Fred Alger & Company, Inc.
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 Balanced Portfolio. It is not authorized for distribution to prospective investors unless accompanied by an effective Prospectus for the Fund, which contains information concerning the Fund's investment policies, fees and expenses as well as other pertinent information.

(This page has been intentionally left blank.)

(This page has been intentionally left blank.)

(This page has been intentionally left blank.)

(This page has been intentionally left blank.)

(This page has been intentionally left blank.)

(This page has been intentionally left blank.)

(This page has been intentionally left blank.)

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, 2014

(Unaudited)

Table of Contents

Go Paperless With Alger Electronic Delivery Service

Alger is pleased to provide you with the ability to access regulatory materials online. When documents such as prospectuses and annual and semi-annual reports are available, we'll send you an e-mail notification with a convenient link that will take you directly to the fund information on our website. To sign up for this free service, simply enroll at **www.icsdelivery.com/alger**.

Shareholders' Letter

July 22, 2014

Dear Shareholders,

Volatility Persists as Economy Shows Signs of Growing

Equity markets in the United States and abroad produced considerable volatility during the six-month period ended June 30. In the U.S., investors assessed if economic growth in 2014 would support market levels that were driven by multiple expansion during 2013 while severe winter weather threw a cold blanket on consumer spending and real estate. Investors also struggled with uncertainty over the timing of future Federal Reserve actions to reduce fiscal stimulus. Looking abroad, Russia's annexation of Crimea and moderating economic growth in China also supported market volatility. Later in the reporting period, an insurgency in Iraq created fears of potential disruptions to the country's oil production. Yet, a combination of encouraging U.S. economic indicators, such as a strengthening labor market, supported investor sentiment. During the six-month period, the S&P 500 Index climbed 7.14%.

Growth Scare Rattles Stocks

Perhaps the most dramatic event during the reporting period was what we call a "growth scare." During growth scares, investors become fearful of high-growth stocks and either liquidate their equity positions or flock to defensive stocks, such as consumer names like Wal-Mart Stores, Inc., and "old" technology names such as Microsoft Corp. or International Business Machines Corp. Investors may also favor certain pharmaceutical companies. During the recent growth scare, for example, defensive stocks Wal-Mart and Johnson & Johnson generated gains. At the same time, the NYSE Arca Biotechnology Index, which consists of high-growth biotech companies, and the Nasdaq Internet Index, which consists of high-growth Internet companies, each declined more than 19%.

We maintain that investors who were fearful of high-growth stocks during the reporting period overlooked the ability of such growth companies to rapidly expand their earnings and revenues. An overview of cloud computing, one of the most important growth trends within technology, illustrates this concept. Businesses have traditionally housed databases, servers, and other technology equipment in their own facilities. In doing so, companies have been saddled with the costs of storing their technology equipment as well as the costs of committing managerial and employee time to maintaining IT facility performance: those resources generally would be better spent focused on customers, product development, marketing, and other functions that are drivers of business. With cloud computing, vendors assume the responsibility of storing and maintaining technology that customers access remotely via the Internet. By embracing cloud computing, businesses eliminate many of the costs associated with traditional on-premises technology. That can result in cutting technology costs by 30-40%. Cloud computing, therefore, has been growing rapidly as businesses seek to contain technology costs. We estimate that cloud computing technologies now capture 3.5% of the approximately $260 billion that is spent on enterprise technology annually. By 2025, we estimate that enterprise spending will total $350 billion and that providers of cloud computing technology and services will capture 46% of that amount. In the process, they will take market share from traditional providers of on-premises technology.

As a result, we believe that traditional on-premises technology companies are likely to see their revenues and earnings decline as they lose market share to cloud vendors. The technology industry is at a tipping point where the growth and size of cloud computing is increasingly having a negative impact on the ability of traditional on-premises vendors to grow their businesses and profit margins. Thus, while many traditional vendors trade at low P/E multiples, we are cautious on the group as a whole and think that many of the companies are not attractive investments. Conversely, cloud vendors are likely to see their earnings grow quickly, and we believe that some—in particular those that become the new leaders of this wave of technology—will be superior investments as their growth in revenues and profits over the coming years "validates" their higher valuations.

The trend of new products or technology cannibalizing older products isn't unique to cloud computing. For example, online stores are rapidly capturing market share from traditional vendors, streaming video is replacing DVDs, online media and search are replacing magazine and newspaper advertising, and leading biotechnology companies are producing new drugs that are displacing older treatments. Those are examples of dynamic change within industries. Alger's investment philosophy and process have, since our founding 50 years ago, perceived dynamic change as creating attractive opportunities for investors.

Growth scares are quite common. In fact, in recent years, we've seen similar market collapses in confidence or sentiment. In each case, the scares have been temporary, and as investor confidence in the strength of the U.S. economy and in corporate fundamentals returned, so did investors' focus on companies with the strongest potential future revenue growth and fundamental business opportunities. We believe that this explains why stocks of high-growth companies have outperformed the broad market and low-growth sectors in the six- and nine-month periods following the growth scares of 2012 and 2013 (See table below).

High-Growth Companies Have Outperformed the S&P 500 Index and Other Companies in the Months Following Growth Scares.

	Growth Scare of 2012			Growth Scare of 2013		
	Performance (%)	6 Month Performance Following Growth Scare (%)	9 Month Performance Following Growth Scare (%)	Performance (%)	6 Month Performance Following Growth Scare (%)	9 Month Performance Following Growth Scare (%)
S&P 500 (SPX)	-9	10	18	-4	15	18
High-Growth Companies						
Cloud	-12	17	37	3	27	39
Biotech	1	31	61	-10	37	46
Tech Growth	-25	5	35	-15	44	70
Consumer	-10	5	16	-5	28	41
Slow-Growth Companies						
Old Tech	-11	3	6	-6	11	14
Consumer	-2	8	11	-3	7	7
Pharmaceuticals	-4	13	21	-6	7	12
Source: Thomson Reuters FactSet[1]						

[1] To compile data in the table, we looked at the largest market declines in each of the last two years. We defined scares as the time period ranging from the start of a market decline to a market bottom. The 2012 Growth Scare occurred from May 1 to June 5. The 2013 Growth Scare occurred from May 22 to June 25.

Fed Watchers Drive Market Volatility

Uncertainty over the Federal Reserve's timing for reining in stimulus also supported market volatility. Generally speaking, the Federal Reserve is expected to unwind its bond purchasing, or quantitative easing, later this year and to raise the federal funds rate next year. When encouraging economic data surfaced during the reporting period, however, some investors grew fearful that the central bank would rein in fiscal stimulus sooner than anticipated. Throughout the reporting period, we remained unconcerned about the potential for the Federal Reserve to speed up its pace for unwinding stimulus. Market interest rates remain lower or unchanged from levels of June 2012 and we believe the economy still has room to grow, even though it has made considerable progress. Major economic indicators such as jobs and inflation are not near levels of past cyclical peaks, and U.S. economic growth is stronger than in many other parts of the world.

Geopolitical Hotspots

Geopolitics also drove market volatility when Russia annexed the Crimea region of the Ukraine in mid-March. The act provoked strong criticism from the U.S. and the European Union, both of which gradually increased sanctions targeting Russia while western banks cut their credit lines to the country. Conditions continued to worsen, with pro-Russia separatists seizing control of a regional government headquarters in Luhansk in eastern Ukraine and escalating protests. As the crisis dragged on, most analysts downgraded their already modest economic growth forecasts for Russia, while foreign investors withdrew their assets from the country. Russia and the Ukraine are limited trading partners with the U.S., accounting for only $13 billion in annual exports and $27.9 billion in imports, which limits our country's ability to exert pressure through economic sanctions. Europe, however, is more closely linked to the two countries, so it has more leverage with imposing sanctions. One possible long-term benefit to the U.S. of the crisis is that Europe, which receives over 30% of its gas from Russia, may turn to the U.S. for energy commodities, which could help support our country's already robust resurgence in the energy industry.

An insurgency in Iraq also generated concerns as investors feared that the turmoil could disrupt energy production in that country. We note that our country has been increasing its own oil production while boosting energy efficiency, so it is becoming less dependent on imported energy commodities, which could mute the impact of higher prices of foreign oil on the U.S. economy. At the same time, a disruption in oil production in Iraq could benefit energy companies with dependable access to natural resources in stable countries such as Canada, Norway, Australia, and the U.S.

China Growth Moderates

The rapid growth of China's economy in recent years has been viewed as a major driver of global economic expansion. The country's gross domestic product (GDP) grew at a higher-than-expected rate of 7.7% in 2013, yet data in the first quarter portrayed an economy that was weakening into 2014. China's National People's Congress in March, furthermore, lowered the country's official growth target for 2014 to 7.5%. Yet China produced stable macroeconomic releases during the last three months of the reporting period, quelling fears of a massive slowdown. Toward quarter-end, the People's Bank of China announced targeted cuts to the required reserve ratio, lowering it 50 basis points for banks with certain minimum exposures to loans for smaller companies and agriculture, and on June 30 banking regulators announced new rules on the calculation of loan-to-deposit ratios, implying a slight loosening of policy.

We note that any future moderation of economic expansion in China may have a silver lining. In the past, the country's economic growth has fueled massive demand and higher prices for commodities and other resources. A slower Chinese economy, however, may reduce inflationary pressures in many important areas which, in turn, would be supportive of U.S. businesses and consumers.

Reasons for Optimism

Alger believes that issues such as Russia and the Ukraine will continue to drive market volatility that will create attractive buying opportunities for equity investors. We also maintain that the U.S. economy is stronger than commonly believed. During the reporting period, U.S. unemployment dropped from 6.7% to 6.3% and the number of private-sector employees reached a record high of 116.6 million, according to Cornerstone Macro LP. That exceeded a recent record of 116.4 million, which was the highest level since January of 2008, when private-sector employment climbed to 116 million. Total employment during May reached 138.5 million, exceeding the January of 2008 record high of 138.4 million, and strengthening budgets for many states and municipalities suggest that public employers may increase hiring. Improvements in the job market and strong stock market gains during the past few years, meanwhile, pushed the Conference Board's March Consumer Sentiment Index to 85.2 in June, its highest level since January 2008.

Another force is also supporting the U.S. economy—a rapidly growing energy industry that is benefiting from new technology, such as hydraulic fracturing, which is making additional reserves of oil and natural gas economically feasible for extraction and is reversing a long trend of declining domestic production. From 1970 to 2008, U.S. oil production declined from 9.6 million barrels a day to only 5 million—a level not experienced since 1949. Since 2008, however, it has rapidly increased, reaching 7.4 million barrels a day as of last year. Natural gas production is also surging, climbing from 49,454 BCF (billion cubic feet) per day in 2005 to 66,768 BCF in 2013. We estimate that with growing energy production, domestic resources are on track to meet 96% of the country's energy demand by 2020.

The surge in energy production is doing more than just creating jobs: it's lowering energy costs for U.S. businesses, which is helping to drive a manufacturing renaissance. Just recently, the Boston Consulting Group, citing low energy costs and a lack of upward pressure on labor wages, ranked the U.S. as the second-most competitive country for manufacturing, trailing only China. Certain manufacturers, moreover, are moving their operations from China to the U.S. For example, the Keer Group, which operates a yarn spinning factory in China, plans to build a $218 million factory in North Carolina that will employ 500 workers. Its electric costs will be half of what it pays in China, according to Cornerstone Macro. The strength of manufacturing in the U.S. should not be underestimated—according to the Institute for Supply Management, economic activity in the manufacturing sector expanded in June for the thirteenth consecutive month.

Economic expansion in Europe, while slow, is continuing. The Markit Purchasing Managers' Index for Europe declined to 52.8 in June from 53.5 in May. It is important to note that any reading above 50 indicates growth and that June was the eleventh consecutive month that the index has stayed above that level.

Across the Pacific, the Bank of Japan is continuing with its aggressive quantitative easing. The Japanese economy is only about one-third the size of the U.S., but its quantitative easing program allows the Bank of Japan to spend approximately $68 billion each month to buy bonds, real estate investment trusts, and exchange traded funds. In comparison, the U.S. program at its peak was $85 billion a month. The Japanese program is likely to devalue the yen, which would support the country's export levels.

Going Forward

We believe the recent growth scare has created an attractive opportunity for fundamental, research-driven investors to buy equities. Our analysts and portfolio managers are working hard within our proven research-driven investment strategy to identify companies that are best positioned to grow and lead their industries while delivering superior investment returns to their shareholders.

Portfolio Matters

The Alger Capital Appreciation Portfolio returned 6.51% for the six-month period ended June 30, 2014, compared to the 6.31% return of its benchmark, the Russell 1000 Growth Index.

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

Among the most important relative contributors were NXP Semiconductor NV; Weatherford International Ltd; Actavis PLC; Facebook, Inc.; and Covidien PLC. Shares of social media website operator Facebook performed strongly during the reporting period. The company is benefiting from growing revenues resulting from increased advertising targeting users who access Facebook's social network with mobile devices.

Conversely, detracting from overall results on a relative basis were Schlumberger NV; Microsoft Corp.; Amazon.com, Inc.; and General Motors Co. Also detracting from performance was Vistaprint NV. The company provides graphic design services and printing for individuals and businesses. Its stock performance weakened after the company disclosed disappointing revenues with weak results in Europe and North America. The company attributed the weak results to an earlier decision to change its pricing strategy. Rather than run promotional discounts, the company implemented a lower pricing structure and it cut back on cross-selling and up-selling.

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

Sincerely,

Daniel C. Chung, CFA
Chief Investment Officer
Fred Alger Management, Inc.

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

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 Alger Portfolios. This report is not authorized for distribution to prospective investors in the Portfolios unless proceeded or accompanied by an effective prospectus for the Portfolios. The 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 in these materials represent past performance, which is not an indication or guarantee of future results.

Standard performance results can be found on the following pages. The investment return and principal value of an investment in a Portfolio will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. For performance data current to the most recent month-end, visit us at www.alger.com, or call us at (800) 992-3863.
The views and opinions of the Portfolios' management in this report are as of the date of the Shareholders' Letter and are subject to change at any time subsequent to this date. There is no guarantee that any of the assumptions that formed the basis for the opinions stated herein are accurate or that they will materialize. Moreover, the information forming the basis for such assumptions is from sources believed to be reliable; however, there is no guarantee that such information is accurate. Any securities mentioned, whether owned in a Portfolio or otherwise, are considered in the context of the construction of an overall portfolio of securities and therefore reference to them should not be construed as a recommendation or offer to purchase or sell any such security. Inclusion of such securities in a Portfolio and transactions in such securities, if any, may be for a variety of reasons, including without limitation, in response to cash flows, inclusion in a benchmark, and risk control. The reference to a specific security should also be understood in such context and not viewed as a statement that the security is a significant holding in a Portfolio. Please refer to the Schedule of Investments for each Portfolio which is included in this report for a complete list of Portfolio holdings as of June 30, 2014. 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. Investing in foreign securities involves additional risk (including currency risk, risks related to political, social or economic conditions, and risks associated with foreign markets, such as increased volatility, limited liquidity, less stringent regulatory and legal system, and lack of industry and country diversification), and may not be suitable for all investors. Investing in emerging markets involves higher levels of risk, including increased information, market, and valuation risks, and may not be suitable for all investors.

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 issuer's falling credit rating or actual default. 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. Portfolios that participate in leveraging, such as Alger Capital Appreciation and Alger SMid Cap Portfolios, are subject to the risk that borrowing money to leverage will exceed the returns for securities purchased or that the securities purchased may actually go down in value; thus, Portfolio net asset values can decrease more quickly than if a Portfolio had not borrowed. For a more detailed discussion of the risks associated with a Portfolio, please see the Portfolio's Prospectus.

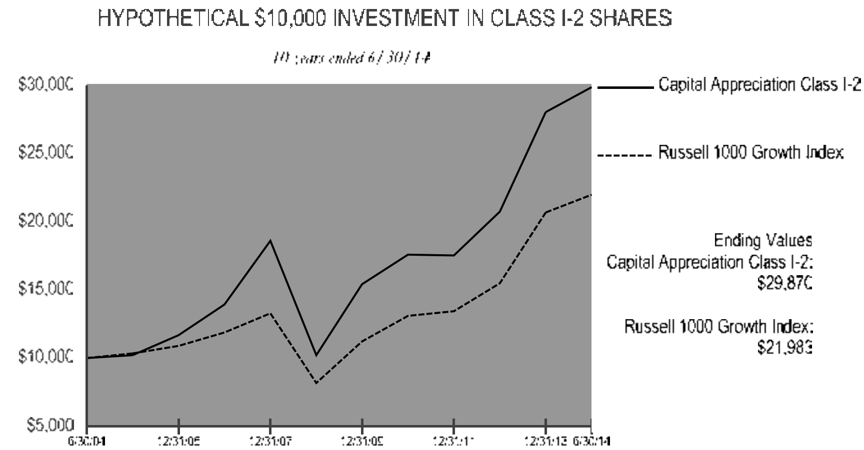
Before investing, carefully consider a Portfolio's investment objective, risks, charges, and expenses. For a prospectus containing this and other information about the Alger Portfolios, call us at (800) 992-3863 or visit us at www.alger.com. Read it carefully before investing.

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

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

Definitions:

- The S&P 500 Index is an unmanaged index generally representative of the U.S. stock market without regard to company size.
- The NYSE Arca Biotechnology IndexSM is an equal dollar-weighted index designed to measure the performance of a cross section of companies in the biotechnology industry that are primarily involved in the use of biological processes to develop products or provide services.
- The NASDAQ Internet Index is a modified market capitalization-weighted index designed to track the performance of the largest and most liquid U.S.-listed companies engaged in internet-related businesses and that are listed on the NASDAQ Stock Market, the New York Stock Exchange (NYSE) or NYSE Amex.
- Cornerstone Macro is an economic research firm.
- The Conference Board's Consumer Sentiment Index measures consumers' near term outlook of the economy.
- The Boston Consulting Group is a global management consulting firm.
- The Institute for Supply Management is a not-for-profit organization that provides education and research on issues regarding the supply of resources that organizations need to attain their objectives.
- Markit is a global, diversified provider of financial information. The Markit Purchasing Managers' Index provides insight into the private sector economy by tracking variables such as output, new orders, employment and prices across key sectors.
- 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 and the Russell 1000 Growth Index (unmanaged index of common stocks) for the ten years ended June 30, 2014. Figures for the Alger Capital Appreciation Portfolio Class I-2 shares and the Russell 1000 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 6/30/14

AVERAGE ANNUAL TOTAL RETURNS

	1 YEAR	5 YEARS	10 YEARS	Since 1/25/1995
Class I-2 (Inception 1/25/95)	30.26%	19.80%	11.56%	13.50%
Class S (Inception 5/1/02)(i)	29.88%	19.41%	11.25%	13.22%
Russell 1000 Growth Index	26.92%	19.24%	8.20%	8.92%

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 performance current to the most recent month end, 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 policy 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 those of Class I-2 shares adjusted to reflect the higher expenses of Class S shares.*

PORTFOLIO SUMMARY†
June 30, 2014 (Unaudited)

SECTORS	Alger Capital Appreciation Portfolio
Consumer Discretionary	18.5%
Consumer Staples	6.2
Energy	6.6
Financials	7.0
Health Care	17.1
Industrials	10.9
Information Technology	26.6
Materials	3.4
Telecommunication Services	2.1
Short-Term Investments and Net Other Assets	1.6
	100.0%

† *Based on net assets for each Portfolio.*

COMMON STOCKS—97.0%	SHARES	VALUE
ADVERTISING—0.9%		
Choicestream, Inc.*[L3]	23,166	$ 13,900
Lamar Advertising Co., Cl. A	38,100	2,019,300
Nielsen NV	50,100	2,425,341
		4,458,541
AEROSPACE & DEFENSE—4.0%		
Honeywell International, Inc.	108,700	10,103,665
Precision Castparts Corp.	20,700	5,224,680
The Boeing Co.	22,800	2,900,844
United Technologies Corp.	16,400	1,893,380
		20,122,569
AIRLINES—0.5%		
Copa Holdings SA, Cl. A	3,600	513,252
Delta Air Lines, Inc.	46,800	1,812,096
		2,325,348
APPAREL ACCESSORIES & LUXURY GOODS—1.3%		
Michael Kors Holdings Ltd.*	11,900	1,054,935
PVH Corp.	18,700	2,180,420
Ralph Lauren Corp.	19,100	3,069,179
		6,304,534
APPAREL RETAIL—0.2%		
L Brands, Inc.	20,000	**1,173,200**
APPLICATION SOFTWARE—1.7%		
King Digital Entertainment, PLC.*	20,200	415,110
salesforce.com, inc.*	112,100	6,510,768
SAP AG#	19,800	1,524,600
		8,450,478
ASSET MANAGEMENT & CUSTODY BANKS—0.4%		
Affiliated Managers Group, Inc.*	9,800	**2,012,920**
AUTO PARTS & EQUIPMENT—3.0%		
Delphi Automotive PLC.	95,246	6,547,210
Johnson Controls, Inc.	119,800	5,981,614
WABCO Holdings, Inc.*	20,738	2,215,233
		14,744,057
BIOTECHNOLOGY—5.9%		
Amgen, Inc.	27,100	3,207,827
Biogen Idec, Inc.*	14,200	4,477,402
Celgene Corp.*	60,900	5,230,092
Gilead Sciences, Inc.*	141,700	11,748,347
Intercept Pharmaceuticals, Inc.*	1,600	378,608
Pharmacyclics, Inc.*	36,300	3,256,473
Vertex Pharmaceuticals, Inc.*	10,003	947,084
		29,245,833

COMMON STOCKS—(CONT.)	SHARES	VALUE
BREWERS—0.7%		
Anheuser-Busch InBev NV#	11,000	$ 1,264,340
Molson Coors Brewing, Co.	29,500	2,187,720
		3,452,060
BROADCASTING—0.8%		
CBS Corp., Cl. B	62,000	**3,852,680**
BUILDING PRODUCTS—0.3%		
Fortune Brands Home & Security, Inc.	37,600	**1,501,368**
CABLE & SATELLITE—3.0%		
Comcast Corporation, Cl. A	137,800	7,397,104
DISH Network Corp.*	30,700	1,997,956
Liberty Global, Inc., Cl. A*	35,200	1,556,544
Time Warner Cable, Inc.	27,000	3,977,100
		14,928,704
CASINOS & GAMING—0.5%		
Las Vegas Sands Corp.	31,700	**2,416,174**
COMMUNICATIONS EQUIPMENT—2.0%		
F5 Networks, Inc.*	30,000	3,343,200
QUALCOMM, Inc.	82,600	6,541,920
		9,885,120
CONSTRUCTION & ENGINEERING—0.4%		
Quanta Services, Inc.*	55,600	**1,922,648**
CONSTRUCTION MATERIALS—0.5%		
Eagle Materials, Inc.	28,500	**2,686,980**
CONSUMER FINANCE—1.9%		
American Express Co.	68,400	6,489,108
Discover Financial Services	49,000	3,037,020
		9,526,128
DATA PROCESSING & OUTSOURCED SERVICES—3.2%		
Alliance Data Systems Corp.*	19,000	5,343,750
Visa, Inc., Cl. A	50,900	10,725,139
		16,068,889
DIVERSIFIED BANKS—0.5%		
JPMorgan Chase & Co.	40,200	**2,316,324**
DIVERSIFIED CHEMICALS—0.3%		
The Dow Chemical Co.	29,400	**1,512,924**
DRUG RETAIL—2.6%		
CVS Caremark Corp.	129,900	9,790,563
Walgreen Co.	45,400	3,365,502
		13,156,065
ELECTRICAL COMPONENTS & EQUIPMENT—0.5%		
Eaton Corp., PLC.	32,520	**2,509,894**
FERTILIZERS & AGRICULTURAL CHEMICALS—0.9%		
Monsanto Co.	21,300	2,656,962

COMMON STOCKS—(CONT.)	SHARES	VALUE
FERTILIZERS & AGRICULTURAL CHEMICALS—(CONT.)		
Potash Corporation of Saskatchewan, Inc.	42,400	$ 1,609,504
		4,266,466
FOOTWEAR—0.6%		
NIKE, Inc., Cl. B	38,100	**2,954,655**
HEALTH CARE EQUIPMENT—2.7%		
Covidien PLC.	72,200	6,510,996
GoPro, Inc.*	11,500	466,325
Insulet Corp.*	23,000	912,410
St. Jude Medical, Inc.	78,001	5,401,569
		13,291,300
HEALTH CARE FACILITIES—2.1%		
HCA Holdings, Inc.*	180,200	10,159,676
Universal Health Services, Inc., Cl. B	5,300	507,528
		10,667,204
HOME ENTERTAINMENT SOFTWARE—0.1%		
Activision Blizzard, Inc.	18,400	**410,320**
HOME IMPROVEMENT RETAIL—2.1%		
The Home Depot, Inc.	128,100	**10,370,976**
HOTELS RESORTS & CRUISE LINES—1.8%		
Ctrip.com International Ltd.#*	29,900	1,914,796
Hilton Worldwide Holdings, Inc.*	146,400	3,411,120
Royal Caribbean Cruises Ltd.	68,700	3,819,720
		9,145,636
HOUSEHOLD PRODUCTS—0.6%		
The Procter & Gamble Co.	38,400	**3,017,856**
HOUSEWARES & SPECIALTIES—0.4%		
Jarden Corp.*	37,700	**2,237,495**
INDUSTRIAL CONGLOMERATES—1.2%		
Danaher Corp.	78,500	**6,180,305**
INDUSTRIAL MACHINERY—0.6%		
Ingersoll-Rand PLC.	44,300	**2,769,193**
INTEGRATED TELECOMMUNICATION SERVICES—1.6%		
Verizon Communications, Inc.	158,400	**7,750,512**
INTERNET RETAIL—2.7%		
Amazon.com, Inc.*	28,870	9,376,399
The Priceline Group, Inc.*	1,500	1,804,500
TripAdvisor, Inc.*	23,300	2,531,778
		13,712,677
INTERNET SOFTWARE & SERVICES—8.4%		
Demandware, Inc.*	12,700	880,999
eBay, Inc.*	69,700	3,489,182
Facebook, Inc.*	202,697	13,639,481
Google, Inc., Cl. A*	9,000	5,262,030

COMMON STOCKS—(CONT.)	SHARES	VALUE
INTERNET SOFTWARE & SERVICES—(CONT.)		
Google, Inc., Cl. C*	19,200	$ 11,045,376
LinkedIn Corp.*	4,800	823,056
Sina Corp.*	4,936	245,665
Yahoo! Inc.*	181,000	6,358,530
		41,744,319
INVESTMENT BANKING & BROKERAGE—1.3%		
Morgan Stanley	205,700	**6,650,281**
IT CONSULTING & OTHER SERVICES—0.5%		
International Business Machines Corp.	13,600	**2,465,272**
LIFE & HEALTH INSURANCE—0.3%		
Lincoln National Corp.	24,400	1,255,136
Prudential Financial, Inc.	5,500	488,235
		1,743,371
LIFE SCIENCES TOOLS & SERVICES—1.6%		
Thermo Fisher Scientific, Inc.	68,100	**8,035,800**
MANAGED HEALTH CARE—2.0%		
Aetna, Inc.	79,300	6,429,644
Cigna Corp.	36,900	3,393,693
		9,823,337
MOVIES & ENTERTAINMENT—0.2%		
Twenty-First Century Fox, Inc.	35,100	**1,201,473**
MULTI-LINE INSURANCE—0.7%		
American International Group, Inc.	67,200	**3,667,776**
OIL & GAS EQUIPMENT & SERVICES—3.3%		
Halliburton Company	43,034	3,055,844
National Oilwell Varco, Inc.	48,400	3,985,740
Schlumberger Ltd.	15,300	1,804,635
Weatherford International Ltd.*	323,365	7,437,395
		16,283,614
OIL & GAS EXPLORATION & PRODUCTION—2.5%		
Anadarko Petroleum Corp.	50,600	5,539,182
Devon Energy Corp.	63,700	5,057,780
Parsley Energy, Inc.*	72,100	1,735,447
Pioneer Natural Resources Co.	1,500	344,715
		12,677,124
OIL & GAS REFINING & MARKETING—0.1%		
Valero Energy Corp.	14,500	**726,450**
OIL & GAS STORAGE & TRANSPORTATION—0.7%		
Cheniere Energy, Inc.*	47,800	**3,427,260**
PHARMACEUTICALS—2.7%		
AbbVie, Inc.	59,500	3,358,180
Actavis PLC.*	37,400	8,342,070

COMMON STOCKS—(CONT.)	SHARES	VALUE
PHARMACEUTICALS—(CONT.)		
Valeant Pharmaceuticals International, Inc.*	13,100	$ 1,652,172
		13,352,422
RAILROADS—0.7%		
Canadian National Railway, Co.	23,500	1,527,970
Union Pacific Corp.	19,900	1,985,025
		3,512,995
RESEARCH & CONSULTING SERVICES—0.6%		
CoStar Group, Inc.*	20,100	**3,179,217**
RESTAURANTS—1.0%		
McDonald's Corp.	11,800	1,188,732
Starbucks Corp.	42,200	3,265,436
Yum! Brands, Inc.	9,300	755,160
		5,209,328
SECURITY & ALARM SERVICES—1.2%		
Tyco International Ltd.	131,800	**6,010,080**
SEMICONDUCTOR EQUIPMENT—0.6%		
Lam Research Corp.	44,000	**2,973,520**
SEMICONDUCTORS—3.5%		
Avago Technologies Ltd.	10,500	756,735
Broadcom Corp., Cl. A	32,600	1,210,112
Micron Technology, Inc.*	166,600	5,489,470
NXP Semiconductor NV*	149,900	9,920,382
		17,376,699
SOFT DRINKS—1.6%		
Monster Beverage Corp.*	14,300	1,015,729
PepsiCo, Inc.	76,800	6,861,312
		7,877,041
SPECIALIZED FINANCE—0.6%		
IntercontinentalExchange Group, Inc.	10,900	2,059,010
Moody's Corp.	9,500	832,770
		2,891,780
SPECIALTY CHEMICALS—1.7%		
Rockwood Holdings, Inc.	99,550	7,564,804
The Sherwin-Williams Co.	4,700	972,477
		8,537,281
SYSTEMS SOFTWARE—1.1%		
Microsoft Corp.	126,800	**5,287,560**
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—5.5%		
Apple, Inc.	279,300	25,955,349
Western Digital Corp.	17,500	1,615,250
		27,570,599
TOBACCO—0.7%		
Lorillard, Inc.	57,700	**3,517,969**

COMMON STOCKS—(CONT.)	SHARES	VALUE
TRADING COMPANIES & DISTRIBUTORS—0.9%		
HD Supply Holdings, Inc.*	104,900	$ 2,978,111
United Rentals, Inc.*	16,200	1,696,626
		4,674,737
WIRELESS TELECOMMUNICATION SERVICES—0.5%		
SoftBank Corp.	30,550	**2,274,477**
TOTAL COMMON STOCKS		
(Cost $405,203,526)		**484,039,815**
PREFERRED STOCKS—0.1%	**SHARES**	**VALUE**
ADVERTISING—0.0%		
Choicestream, Inc., Cl. A*L3	199,768	**119,861**
PHARMACEUTICALS—0.1%		
Intarcia Therapeutics, Inc.*L3	20,889	**676,595**
TOTAL PREFERRED STOCKS		
(Cost $836,345)		**796,456**
MASTER LIMITED PARTNERSHIP—1.3%	**SHARES**	**VALUE**
ASSET MANAGEMENT & CUSTODY BANKS—1.3%		
The Blackstone Group LP.	113,100	3,782,064
The Carlyle Group LP.	78,900	2,679,444
		6,461,508
TOTAL MASTER LIMITED PARTNERSHIP		
(Cost $5,545,168)		**6,461,508**
Total Investments		
(Cost $411,585,039)(a)	98.4%	**491,297,779**
Other Assets in Excess of Liabilities	1.6%	**7,831,841**
NET ASSETS	100.0%	**$ 499,129,620**

‡ *Securities classified as Level 1 for ASC 820 disclosure purposes based on valuation inputs unless otherwise noted.*
L3 *Security classified as Level 3 for ASC 820 disclosure purposes based on valuation inputs.*
* *Non-income producing security.*
\# *American Depositary Receipts.*
(a) *At June 30, 2014, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $412,084,222, amounted to $79,213,557 which consisted of aggregate gross unrealized appreciation of $81,969,890 and aggregate gross unrealized depreciation of $2,756,333.*

See Notes to Financial Statements.

THE ALGER PORTFOLIOS
Statement of Assets and Liabilities June 30, 2014 (Unaudited)

		Alger Capital Appreciation Portfolio
ASSETS:		
Investments in securities, at value (Identified cost below)* see accompanying schedules of investments	$	491,297,779
Cash and cash equivalents		7,284,942
Receivable for investment securities sold		7,866,637
Receivable for shares of beneficial interest sold		536,884
Dividends and interest receivable		192,091
Prepaid expenses		6,737
Total Assets		507,185,070
LIABILITIES:		
Payable for investment securities purchased		7,194,722
Payable for shares of beneficial interest redeemed		379,159
Accrued investment advisory fees		339,272
Accrued transfer agent fees		22,027
Accrued distribution fees		4,893
Accrued administrative fees		11,518
Accrued shareholder administrative fees		4,189
Accrued other expenses		99,670
Total Liabilities		8,055,450
NET ASSETS	**$**	**499,129,620**
NET ASSETS CONSIST OF:		
Paid in capital (par value of $.001 per share)		368,888,960
Undistributed net investment income		1,237,414
Undistributed net realized gain		49,290,507
Net unrealized appreciation on investments		79,712,739
NET ASSETS	**$**	**499,129,620**
* Identified cost	$	411,585,039

See Notes to Financial Statements.

		Alger Capital Appreciation Portfolio
NET ASSETS BY CLASS:		
Class I-2	$	475,518,770
Class S	$	23,610,850
SHARES OF BENEFICIAL INTEREST OUTSTANDING — NOTE 6:		
Class I-2		6,081,470
Class S		310,268
NET ASSET VALUE PER SHARE:		
Class I-2 — Net Asset Value Per Share	$	78.19
Class S — Net Asset Value Per Share	$	76.10

See Notes to Financial Statements.

THE ALGER PORTFOLIOS
Statement of Operations for the six months ended June 30, 2014
(Unaudited)

		Alger Capital Appreciation Portfolio
INCOME:		
Dividends (net of foreign withholding taxes*)	$	2,782,334
Interest		7,350
Total Income		2,789,684
EXPENSES:		
Advisory fees — Note 3(a)		1,928,613
Distribution fees — Note 3(c)		
Class S		26,293
Shareholder administrative fees — Note 3(f)		23,810
Administration fees — Note 3(b)		65,478
Custodian fees		39,869
Interest expenses		26
Transfer agent fees and		45,025
Printing fees		43,010
Professional fees		31,314
Registration fees		1,811
Trustee fees — Note 3(g)		12,193
Fund accounting fees		29,338
Miscellaneous		16,742
Total Expenses		2,263,522
NET INVESTMENT INCOME		526,162
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OPTIONS AND FOREIGN CURRENCY:		
Net realized gain on investments and purchased options		39,619,116
Net realized gain on foreign currency transactions		6,977
Net change in unrealized (depreciation) on investments, options and foreign currency		(9,649,998)
Net realized and unrealized gain on investments, options, and foreign currency		29,976,095
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**30,502,257**
* Foreign withholding taxes	$	9,370

See Notes to Financial Statements.

THE ALGER PORTFOLIOS
Statements of Changes in Net Assets (Unaudited)

	Alger Capital Appreciation Portfolio	
	For the Six Months Ended June 30, 2014	For the Year Ended December 31, 2013
Net investment income	$ 526,162	$ 1,378,641
Net realized gain on investments, options and foreign currency	39,626,093	57,504,583
Net change in unrealized appreciation (depreciation) on investments, options and foreign currency	(9,649,998)	66,928,235
Net increase in net assets resulting from operations	30,502,257	125,811,459
Dividends and distributions to shareholders from:		
Net investment income:		
Class I-2	—	(1,514,306)
Class S	—	(19,207)
Net realized gains:		
Class I-2	—	(47,300,426)
Class S	—	(2,030,390)
Total dividends and distributions to shareholders	—	(50,864,329)
Increase (decrease) from shares of beneficial interest transactions:		
Class I-2	(18,071,833)	44,223,287
Class S	2,484,559	3,200,309
Net increase (decrease) from shares of beneficial interest transactions — Note 6	(15,587,274)	47,423,596
Total increase	14,914,983	122,370,726
Net Assets:		
Beginning of period	484,214,637	361,843,911
END OF PERIOD	**$ 499,129,620**	**$ 484,214,637**
Undistributed net investment income	$ 1,237,414	$ 803,310

See Notes to Financial Statements.

Alger Capital Appreciation Portfolio

	Class I-2					
	Six months ended 6/30/2014[i]	Year ended 12/31/2013	Year ended 12/31/2012	Year ended 12/31/2011	Year ended 12/31/2010	Year ended 12/31/2009
Net asset value, beginning of period	$ 73.41	$ 60.81	$ 51.96	$ 52.16	$ 45.92	$ 30.39
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income[ii]	0.09	0.24	0.69	0.15	0.08	0.18
Net realized and unrealized gain (loss) on investments	4.69	20.99	8.80	(0.29)	6.34	15.35
Total from investment operations	4.78	21.23	9.49	(0.14)	6.42	15.53
Dividends from net investment income	–	(0.27)	(0.62)	(0.06)	(0.18)	–
Distributions from net realized gains	–	(8.36)	(0.02)	–	–	–
Net asset value, end of period	$ 78.19	$ 73.41	$ 60.81	$ 51.96	$ 52.16	$ 45.92
Total return	6.51%	35.19%	18.30%	(0.30)%	14.03%	51.10%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000's omitted)	$ 475,519	$ 464,465	$ 348,152	$ 296,320	$ 284,225	$ 249,483
Ratio of gross expenses to average net assets	0.94%	0.96%	0.96%	0.97%	0.98%	0.99%
Ratio of expense reimbursements to average net assets	–	–	–	(0.03)%	(0.04)%	(0.04)%
Ratio of net expenses to average net assets	0.94%	0.96%	0.96%	0.94%	0.94%	0.95%
Ratio of net investment income (loss) to average net assets	0.23%	0.34%	1.18%	0.28%	0.17%	0.49%
Portfolio turnover rate	71.25%	117.15%	139.19%	156.27%	203.56%	285.33%

See Notes to Financial Statements.

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

(ii) *Amount was computed based on average shares outstanding during the period.*

Alger Capital Appreciation Portfolio

	Class S					
	Six months ended 6/30/2014[i]	Year ended 12/31/2013	Year ended 12/31/2012	Year ended 12/31/2011	Year ended 12/31/2010	Year ended 12/31/2009
Net asset value, beginning of period	$ 71.54	$ 59.46	$ 50.72	$ 51.04	$ 45.01	$ 29.86
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income (loss)[ii]	(0.01)	0.03	0.48	(0.04)	(0.08)	0.08
Net realized and unrealized gain (loss) on investments	4.57	20.49	8.60	(0.28)	6.20	15.07
Total from investment operations	4.56	20.52	9.08	(0.32)	6.12	15.15
Dividends from net investment income	–	(0.08)	(0.32)	–	(0.09)	–
Distributions from net realized gains	–	(8.36)	(0.02)	–	–	–
Net asset value, end of period	$ 76.10	$ 71.54	$ 59.46	$ 50.72	$ 51.04	$ 45.01
Total return	6.37%	34.79%	17.89%	(0.63)%	13.63%	50.69%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000's omitted)	$ 23,611	$ 19,750	$ 13,692	$ 12,038	$ 12,760	$ 13,307
Ratio of gross expenses to average net assets	1.21%	1.26%	1.30%	1.31%	1.34%	1.24%
Ratio of expense reimbursements to average net assets	–	–	–	(0.03)%	(0.04)%	(0.04)%
Ratio of net expenses to average net assets	1.21%	1.26%	1.30%	1.28%	1.30%	1.20%
Ratio of net investment income (loss) to average net assets	(0.03)%	0.04%	0.83%	(0.07)%	(0.18)%	0.23%
Portfolio turnover rate	71.25%	117.15%	139.19%	156.27%	203.56%	285.33%

See Notes to Financial Statements.

(i) *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 qualifies as an investment company as defined in Accounting Standards Codification 946 Financial Services – Investment Companies. The Fund operates as a series company currently issuing seven series of shares of beneficial interest: 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. The Portfolio are available as 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 indexes.

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

While the Committee meets on an as-needed basis, the Committee formally 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 Portfolios' 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, foreign cash 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 in its prospectuses. 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 with the Custodian 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 Custodian and any excess collateral is returned to the borrower on the next business day. In the event the borrower fails to return the loaned securities when due, the Portfolio may take the collateral to replace the securities. If the value of the collateral is less than the purchase cost of replacement securities, the Custodian shall be responsible for any shortfall, but only to the extent that the shortfall is not due to any diminution in collateral value, as defined in the securities lending agreement. 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.

(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., as well as New York State and New York City. The statute of limitations on the Portfolio's tax returns remains open for the tax years 2010-2013. 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 the Portfolio. Expenses directly attributable to the 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 the 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. These unaudited interim financial statements reflect all adjustments which are, in the opinion of management, necessary to present a fair statement of results for the interim period. All such adjustments are of normal recurring nature.

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

(a) Investment Advisory Fees: The fees incurred by the Portfolio, pursuant to the provisions of the Fund's Investment Advisory Agreement with Fred Alger Management, Inc., 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, 2014, is set forth below under the heading "Actual Rate."

	Tier 1	Tier 2	Tier 3	Actual Rate
Alger Capital Appreciation Portfolio[(a)]	0.810%	0.650%	0.600%	0.810%

(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 Fred Alger Management, Inc., 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 the Portfolio pays 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, 2014, the Portfolio paid the Alger Inc. $107,869, in connection with securities transactions.

(e) Interfund Loans: The Portfolio, along with other funds advised by Alger Management, may borrow money from and lend money to each other for temporary or emergency purposes. To the extent permitted under its investment restrictions, each 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, such 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 for the period ended June 30, 2014.

During the six months ended June 30, 2014, the Portfolio incurred interest expense of $25 in connection with interfund loans.

(f) 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

(g) Trustee Fees: From January 1, 2014 through March 5, 2014, each Portfolio paid 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 received an additional annual fee of $22,500 which was paid, pro rata, by all U.S.-registered funds managed by Alger Management. Additionally, each member of the Portfolio's audit committee received $75 from the Portfolio for each audit committee meeting attended, to a maximum of $300 per annum.

Effective March 6, 2014, each Portfolio pays each trustee who is not affiliated with Alger Management or its affiliates $950 for each meeting attended, to a maximum of $3,800 per annum, plus travel expenses incurred for attending the meeting. The Chairman of the Board receives an additional annual fee of $24,300 which is paid, pro rata, by all U.S.-registered funds sponsored by Alger Management. Additionally, each member of the Portfolio's audit committee receives $81 from the Portfolio for each audit committee meeting attended, to a maximum of $324 per annum.

(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, 2014, were as follows:

	PURCHASES	SALES
Alger Capital Appreciation Portfolio	$336,255,425	$345,075,700

NOTE 5 — Borrowings:

The Portfolio may borrow from its custodian on an uncommitted basis. The Portfolio pays the custodian a market rate of interest, generally based upon the London Inter-Bank Offered Rate. The Portfolio may also borrow from other portfolios advised by Alger Management, as discussed in Note 3(e). For the six months ended June 30, 2014, the Portfolios had the following borrowings:

	AVERAGE DAILY BORROWING	WEIGHTED AVERAGE INTEREST RATE
Alger Capital Appreciation Portfolio	$ 4,669	1.10%

The highest amount borrowed during the six months ended June 30, 2014 for the Portfolio was as follows:

	HIGHEST BORROWING
Alger Capital Appreciation Portfolio	$ 845,000

NOTE 6 — Share Capital:

The Portfolio has an unlimited number of authorized shares of beneficial interest of $.001 par value for each share class. During the six months ended June 30, 2014 and the year ended December 31, 2013, transactions of shares of beneficial interest were as follows:

	FOR THE SIX MONTHS ENDED JUNE 30, 2014		FOR THE YEAR ENDED DECEMBER 31, 2013	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Capital Appreciation Portfolio				
Class I-2:				
Shares sold	403,879	$ 29,968,393	1,008,017	$ 71,145,326
Dividends reinvested	—	—	666,501	47,988,079
Shares redeemed	(649,683)	(48,040,226)	(1,072,360)	(74,910,118)
Net increase (decrease)	**(245,804)**	**$ (18,071,833)**	**602,158**	**$ 44,223,287**
Class S:				
Shares sold	66,249	$ 4,796,727	92,849	$ 6,366,862
Dividends reinvested	—	—	29,209	2,049,597
Shares redeemed	(32,065)	(2,312,168)	(76,245)	(5,216,150)
Net increase	**34,184**	**$ 2,484,559**	**45,813**	**$ 3,200,309**

NOTE 7 — Income Tax Information:

At December 31, 2013, the Portfolio, for federal income tax purposes, had no capital loss carryforwards and no capital loss carryforwards were utilized in 2013.

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, 988 currency transactions, the tax treatment of partnerships investments, the realization of unrealized appreciation of Passive Foreign Investment 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 the Portfolio's Schedule of Investments. Based upon the nature, characteristics, and risks associated with its investments as of June 30, 2014, 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	$ 92,710,130	$ 92,696,230	—	$ 13,900
Consumer Staples	31,020,991	31,020,991	—	—
Energy	33,114,448	33,114,448	—	—
Financials	28,808,580	28,808,580	—	—
Health Care	84,415,896	84,415,896	—	—
Industrials	54,708,354	54,708,354	—	—
Information Technology	132,232,776	132,232,776	—	—
Materials	17,003,651	17,003,651	—	—
Telecommunication Services	10,024,989	10,024,989	—	—
TOTAL COMMON STOCKS	**$ 484,039,815**	**$ 484,025,915**	**—**	**$ 13,900**
MASTER LIMITED PARTNERSHIP				
Financials	6,461,508	6,461,508	—	—
PREFERRED STOCKS				
Consumer Discretionary	119,861	—	—	119,861
Health Care	676,595	—	—	676,595
TOTAL PREFERRED STOCKS	**$ 796,456**	**—**	**—**	**$ 796,456**
TOTAL INVESTMENTS IN SECURITIES	**$ 491,297,779**	**$ 490,487,423**	**—**	**$ 810,356**

Alger Capital Appreciation Portfolio	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) Common Stocks
Opening balance at January 1, 2014	$ —
Transfers into Level 3	—
Transfers out of Level 3	—
Total gains or losses	
Included in net realized gain (loss) on investments	—
Included in net unrealized gain (loss) on investments	7,182
Purchases, issuances, sales, and settlements	
Purchases	6,718
Issuances	—
Sales	—
Settlements	—
Closing balance at June 30, 2014	13,900
The amount of total gains or losses for the period included in net realized and unrealized gain (loss) attributable to change in unrealized appreciation (depreciation) relating to investments still held at 6/30/2014	$ 13,900

	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Alger Capital Appreciation Portfolio	**Corporate Bonds**
Opening balance at January 1, 2014	$ 153,177
Transfers into Level 3	—
Transfers out of Level 3	—
Total gains or losses	
Included in net realized gain (loss) on investments	—
Included in net unrealized gain (loss) on investments	(39,892)
Purchases, issuances, sales, and settlements	
Purchases	676,595
Issuances	—
Sales	—
Settlements	6,576
Closing balance at June 30, 2014	796,456
The amount of total gains or losses for the period included in net realized and unrealized gain (loss) attributable to change in unrealized appreciation (depreciation) relating to investments still held at 6/30/2014	$ (39,892)

The following table summarizes the valuation methodology and significant unobservable inputs that are categorized within Level 3 of the fair value hierarchy as of June 30, 2014.

	Fair Value June 30, 2014	Valuation Methodology	Unobservable Input	Range
Alger Capital Appreciation Portfolio				
Common Stock	$ 13,900	Market Approach	Revenue Multiple EBITDA Multiple	1.2x to 3.1x 13.1x to 36.1x
Preferred Stock	$ 119,861	Market Approach	Revenue Multiple EBITDA Multiple	1.2x to 3.1x 13.1x to 36.1x
Preferred Stock	$ 676,595	Income Approach	Discount Rate	10%

The significant unobservable inputs used in the fair value measurement of the company's securities are revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") multiples. Significant increases and decreases in these inputs in isolation and interrelationships between those inputs could result in significantly higher or lower fair value measurements as noted in the table above.

On June 30, 2014 there were no transfer of securities from 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, 2014, such assets are categorized within the disclosure hierarchy as follows:

	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
Cash, Foreign cash and Cash equivalents:				
Alger Capital Appreciation Portfolio	$ 7,284,942	$ 7,284,942	—	—

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, a 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, may also buy and sell call and put options on equities and equity indices. The Portfolio may purchase call options to increase its exposure to the stock market and also provide diversification of risk. The Portfolio may purchase put options in order to protect from significant market declines that may occur over a short period of time. The Portfolio may 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, 2014, the Portfolio had no derivative instruments.

NOTE 10 — Subsequent Events:

Management of the Portfolio has evaluated events that have occurred subsequent to June 30, 2014 through the issuance date of the Financial Statements. No such events have been identified which require recognition and/or 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, 2014 and ending June 30, 2014.

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, 2014	Ending Account Value June 30, 2014	Expenses Paid During the Six Months Ended June 30, 2014[a]	Annualized Expense Ratio For the Six Months Ended June 30, 2014[b]
Alger Capital Appreciation Portfolio					
Class I-2	Actual	$ 1,000.00	$ 1,065.11	$ 4.81	0.94%
	Hypothetical[c]	1,000.00	1,020.13	4.71	0.94
Class S	Actual	1,000.00	1,063.74	6.19	1.21
	Hypothetical[c]	1,000.00	1,018.79	6.06	1.21

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

(b) Annualized.

(c) 5% annual return before expenses.

Privacy Policy

U.S. Consumer Privacy Notice Rev. 01/2011 **3/31/11**

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**

Who we are	
Who is providing this notice?	Alger includes 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 Global Growth Fund.

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 Global 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 Portfolios' 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 portfolio holdings which have not previously been made public to individual investors, institutional investors, intermediaries that distribute the Portfolios' shares and other parties which are not employed by the Manager or its affiliates except when the legitimate business purposes for selective disclosure and other conditions (designed to protect the Portfolio) are acceptable.

The Portfolio makes 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 Portfolios' fiscal quarter. The Portfolios Forms N-Q are available online on the SEC's website at www.sec.gov or may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information regarding the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330.

In addition, the Portfolio makes publicly available its month-end top 10 holdings with a 15 day lag and their month-end full portfolios 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 portfolio holdings information.

In accordance with the foregoing, the Portfolio provides portfolio 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 Fund will communicate with these service providers to confirm that they understand the Portfolios' 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 Portfolios 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, the Manager 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 the Fund's portfolio versus its respective index and security specific impact on overall portfolio performance. Please contact the Fund at (800) 992-3863 to obtain such information.

THE ALGER PORTFOLIOS

360 Park Avenue South
New York, NY 10010
(800) 992-3862
www.alger.com

Investment Advisor

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

Distributor

Fred Alger & Company, Inc.
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 Capital Appreciation Portfolio. It is not authorized for distribution to prospective investors unless accompanied by an effective Prospectus for the Fund, which contains information concerning the Fund's investment policies, fees and expenses as well as other pertinent information.

(This page has been intentionally left blank.)

(This page has been intentionally left blank.)

(This page has been intentionally left blank.)

(This page has been intentionally left blank.)

(This page has been intentionally left blank.)

ALGER

Inspired by Change, Driven by Growth.

Deutsche Asset
& Wealth Management

June 30, 2014

Semiannual Report

Deutsche Variable Series I

(formerly DWS Variable Series I)

Deutsche Bond VIP

(formerly 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.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

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

Letter to Shareholders

Dear Shareholder:

I am very pleased to tell you that the DWS funds have been renamed Deutsche funds, aligning more closely with the Deutsche Asset & Wealth Management brand. We are proud to adopt the Deutsche name — a brand that fully represents the global access, discipline and intelligence that support all of our products and services.

Deutsche Asset & Wealth Management combines the asset management and wealth management divisions of Deutsche Bank to deliver a comprehensive suite of active, passive and alternative investment capabilities. Your investment in the Deutsche funds means you have access to the thought leadership and resources of one of the world's largest and most influential financial institutions.

In conjunction with your fund's name change, please note that the Deutsche funds' Web address has changed as well. The former dws-investments.com is now deutschefunds.com.

In addition, key service providers have been renamed as follows:

Former Name	**New name, effective August 11, 2014**
DWS Investments Distributors, Inc.	DeAWM Distributors, Inc.
DWS Trust Company	DeAWM Trust Company
DWS Investments Service Company	DeAWM Service Company

These changes have no effect on the day-to-day management of your investment, and there is no action required on your part. You will continue to experience the benefits that come from our decades of experience, in-depth research and worldwide network of investment professionals.

Thanks for your continued support. We appreciate your trust and the opportunity to put our capabilities to work for you.

Best regards,

Brian Binder
President, Deutsche Funds

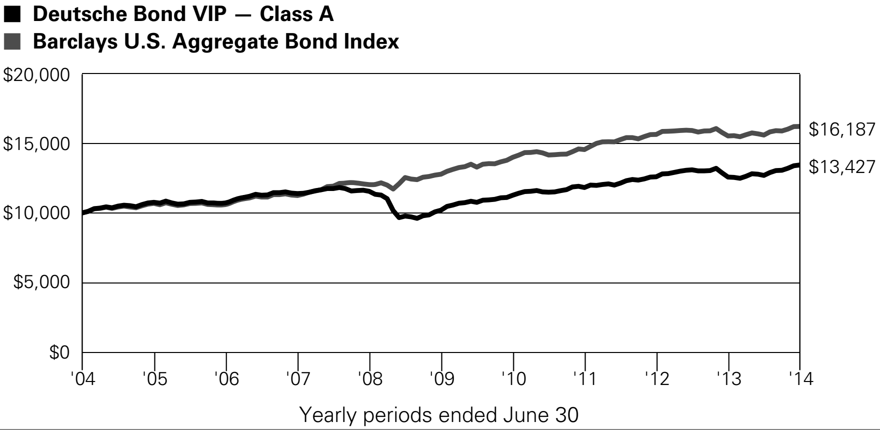
Performance Summary

June 30, 2014 (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, 2014 is 0.65% 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

Deutsche Bond VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,588	$10,685	$11,363	$13,178	$13,427
	Average annual total return	5.88%	6.85%	4.35%	5.67%	2.99%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$10,393	$10,437	$11,140	$12,674	$16,187
	Average annual total return	3.93%	4.37%	3.66%	4.85%	4.93%

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)	**6/30/14**	**12/31/13**
Corporate Bonds	36%	40%
Government & Agency Obligations	32%	24%
Mortgage-Backed Securities Pass-Throughs	10%	27%
Cash Equivalents and other Assets and Liabilities, net	7%	–12%
Collateralized Mortgage Obligations	5%	6%
Municipal Bonds and Notes	4%	7%
Commercial Mortgage-Backed Securities	4%	6%
Asset-Backed	2%	2%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	**6/30/14**	**12/31/13**
AAA	44%	49%
AA	8%	9%
A	6%	9%
BBB	20%	18%
BB or Below	19%	12%
Not Rated	3%	3%
	100%	100%

Interest Rate Sensitivity	**6/30/14**	**12/31/13**
Effective Maturity	6.0 years	7.7 years
Effective Duration	4.1 years	6.2 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 6.

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 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 deutschefunds.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

Investment Portfolio

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 36.1%		
Consumer Discretionary 1.6%		
AMC Entertainment, Inc., 5.875%, 2/15/2022	15,000	15,600
AmeriGas Finance LLC:		
6.75%, 5/20/2020	15,000	16,275
7.0%, 5/20/2022	10,000	11,075
APX Group, Inc., 6.375%, 12/1/2019	15,000	15,562
Asbury Automotive Group, Inc., 8.375%, 11/15/2020	5,000	5,550
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	25,000	25,000
Avis Budget Car Rental LLC, 5.5%, 4/1/2023	15,000	15,338
BC Mountain LLC, 144A, 7.0%, 2/1/2021	15,000	14,513
Boyd Gaming Corp., 9.0%, 7/1/2020 (b)	10,000	11,025
Cablevision Systems Corp., 5.875%, 9/15/2022	5,000	5,094
CCO Holdings LLC, 6.5%, 4/30/2021	155,000	165,075
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	5,000	4,981
144A, 6.375%, 9/15/2020	80,000	85,000
Clear Channel Worldwide Holdings, Inc.:		
Series A, 6.5%, 11/15/2022	15,000	16,012
Series B, 6.5%, 11/15/2022	25,000	26,937
Series B, 7.625%, 3/15/2020	75,000	80,906
Columbus International, Inc., 144A, 7.375%, 3/30/2021	200,000	215,500
Delphi Corp., 5.0%, 2/15/2023	20,000	21,500
DISH DBS Corp.:		
4.25%, 4/1/2018	15,000	15,600
5.0%, 3/15/2023	20,000	20,375
7.875%, 9/1/2019	90,000	106,875
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	10,000	11,100
Johnson Controls, Inc., 4.95%, 7/2/2064	180,000	182,343
Live Nation Entertainment, Inc., 144A, 7.0%, 9/1/2020	20,000	21,900
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	20,000	21,100
Mediacom Broadband LLC:		
144A, 5.5%, 4/15/2021	5,000	5,063
6.375%, 4/1/2023	10,000	10,550
MGM Resorts International:		
6.625%, 12/15/2021 (b)	40,000	44,500
6.75%, 10/1/2020	42,000	46,882
8.625%, 2/1/2019	60,000	71,475
Numericable Group SA, 144A, 4.875%, 5/15/2019	30,000	30,787
Pinnacle Entertainment, Inc., 6.375%, 8/1/2021	15,000	15,825
Quebecor Media, Inc., 5.75%, 1/15/2023	15,000	15,413
Sirius XM Radio, Inc., 144A, 5.875%, 10/1/2020	10,000	10,575
Springs Industries, Inc., 6.25%, 6/1/2021	10,000	10,200
Starz LLC, 5.0%, 9/15/2019	10,000	10,413
Taylor Morrison Communities, Inc., 144A, 5.25%, 4/15/2021	15,000	15,225
Time Warner Cable, Inc., 7.3%, 7/1/2038	165,000	221,962
Viking Cruises Ltd., 144A, 8.5%, 10/15/2022	15,000	16,575
		1,655,681
Consumer Staples 1.2%		
Chiquita Brands International, Inc., 7.875%, 2/1/2021	15,000	16,331
Controladora Mabe SA de CV, 144A, 7.875%, 10/28/2019	200,000	229,000
JBS Investments GmbH:		
144A, 7.25%, 4/3/2024	30,000	31,050
144A, 7.75%, 10/28/2020	200,000	214,000
JBS U.S.A. LLC:		
144A, 7.25%, 6/1/2021	30,000	32,175
144A, 8.25%, 2/1/2020	115,000	124,775
Marfrig Overseas Ltd., 144A, 9.5%, 5/4/2020	100,000	107,500
Pilgrim's Pride Corp., 7.875%, 12/15/2018	115,000	121,762
Post Holdings, Inc., 144A, 6.75%, 12/1/2021	25,000	26,563
Reynolds Group Issuer, Inc., 5.75%, 10/15/2020	325,000	342,875
Roundy's Supermarkets, Inc., 144A, 10.25%, 12/15/2020	15,000	15,844
Smithfield Foods, Inc., 6.625%, 8/15/2022	20,000	21,900
		1,283,775
Energy 6.6%		
Afren PLC, 144A, 10.25%, 4/8/2019	500,000	566,875
Antero Resources Finance Corp., 5.375%, 11/1/2021	5,000	5,188
Berry Petroleum Co., LLC:		
6.375%, 9/15/2022	15,000	15,975
6.75%, 11/1/2020	25,000	26,312
BreitBurn Energy Partners LP, 7.875%, 4/15/2022	45,000	48,712
Chaparral Energy, Inc., 7.625%, 11/15/2022	25,000	27,000
Chesapeake Energy Corp., 3.479%*, 4/15/2019	20,000	20,225
CONSOL Energy, Inc., 144A, 5.875%, 4/15/2022	5,000	5,238
Crestwood Midstream Partners LP, 144A, 6.125%, 3/1/2022	10,000	10,525
DCP Midstream LLC, 144A, 9.75%, 3/15/2019	760,000	979,919
Delek & Avner Tamar Bond Ltd., 144A, 3.839%, 12/30/2018	500,000	501,782
Ecopetrol SA, 5.875%, 5/28/2045	500,000	517,140
Endeavor Energy Resources LP, 144A, 7.0%, 8/15/2021	35,000	37,362
EP Energy LLC, 7.75%, 9/1/2022	30,000	33,825
EXCO Resources, Inc., 8.5%, 4/15/2022	10,000	10,800
Halcon Resources Corp.:		
8.875%, 5/15/2021	35,000	37,625
9.75%, 7/15/2020	15,000	16,369

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

	Principal Amount ($)(a)	Value ($)
Kodiak Oil & Gas Corp., 5.5%, 1/15/2021	25,000	26,063
Linn Energy LLC, 6.25%, 11/1/2019	150,000	157,125
MEG Energy Corp., 144A, 7.0%, 3/31/2024	30,000	33,075
Midstates Petroleum Co., Inc.:		
9.25%, 6/1/2021	30,000	32,925
10.75%, 10/1/2020	35,000	39,725
Murphy Oil U.S.A., Inc., 6.0%, 8/15/2023	20,000	21,050
Nostrum Oil & Gas Finance BV, 144A, 6.375%, 2/14/2019	200,000	209,000
Oasis Petroleum, Inc.:		
6.5%, 11/1/2021	75,000	80,625
144A, 6.875%, 3/15/2022	25,000	27,250
6.875%, 1/15/2023	15,000	16,350
Offshore Drilling Holding SA, 144A, 8.375%, 9/20/2020	200,000	221,500
Offshore Group Investment Ltd.:		
7.125%, 4/1/2023	25,000	25,375
7.5%, 11/1/2019	50,000	52,875
Pacific Rubiales Energy Corp., 144A, 7.25%, 12/12/2021	200,000	222,000
Petroleos de Venezuela SA, 144A, 9.0%, 11/17/2021	200,000	169,980
Petroleos Mexicanos, 2.248%*, 7/18/2018	250,000	259,545
PT Pertamina Persero:		
144A, 5.625%, 5/20/2043	500,000	448,750
144A, 6.45%, 5/30/2044	1,000,000	992,500
Rowan Companies, Inc., 4.75%, 1/15/2024	380,000	402,051
SandRidge Energy, Inc., 7.5%, 3/15/2021	55,000	59,606
Transocean, Inc., 3.8%, 10/15/2022	555,000	549,296
Whiting Petroleum Corp., 5.0%, 3/15/2019	15,000	15,788
		6,923,326
Financials 11.5%		
Assured Guaranty U.S. Holdings, Inc., 5.0%, 7/1/2024	220,000	218,690
Banco do Brasil SA, 144A, 9.0%, 12/31/2049	200,000	198,241
Barclays Bank PLC, 7.625%, 11/21/2022	1,090,000	1,244,235
BBVA Bancomer SA, 144A, 6.5%, 3/10/2021	200,000	225,500
CIT Group, Inc., 3.875%, 2/19/2019	65,000	66,014
Citigroup, Inc., 4.05%, 7/30/2022	225,000	230,512
Country Garden Holdings Co., Ltd., 144A, 11.125%, 2/23/2018	200,000	218,240
Credit Agricole SA, 144A, 7.875%, 1/29/2049 (b)	200,000	218,500
Development Bank of Kazakhstan JSC, Series 3, 6.5%, 6/3/2020	500,000	535,600
E*TRADE Financial Corp.:		
6.375%, 11/15/2019	40,000	43,300
6.75%, 6/1/2016	205,000	222,425
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	510,000	511,447
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022	380,000	402,011
ING Bank NV, 144A, 2.0%, 9/25/2015	1,310,000	1,331,077
International Lease Finance Corp., 6.25%, 5/15/2019	5,000	5,600
Intesa Sanpaolo SpA:		
3.875%, 1/16/2018	895,000	943,274
144A, 5.017%, 6/26/2024	390,000	394,608
Jefferies Group LLC, 5.125%, 1/20/2023	300,000	321,619
Macquarie Group Ltd., 144A, 6.0%, 1/14/2020	825,000	934,591
Morgan Stanley:		
3.75%, 2/25/2023	835,000	849,428
4.1%, 5/22/2023	85,000	86,225
Series H, 5.45%, 7/29/2049	10,000	10,182
Navient Corp., 5.5%, 1/25/2023 (b)	630,000	624,487
Neuberger Berman Group LLC, 144A, 5.875%, 3/15/2022	155,000	165,463
Omega Healthcare Investors, Inc., (REIT), 144A, 4.95%, 4/1/2024	505,000	515,788
Royal Bank of Scotland Group PLC, 6.1%, 6/10/2023	100,000	109,459
Schahin II Finance Co. SPV Ltd., 144A, 5.875%, 9/25/2023 (b)	185,733	182,947
Societe Generale SA, 144A, 7.875%, 12/29/2049 (b)	50,000	53,313
The Goldman Sachs Group, Inc., Series L, 5.7%, 12/29/2049	15,000	15,497
Trust F/1401, (REIT), 144A, 5.25%, 12/15/2024	500,000	525,000
Woori Bank Co., Ltd., 144A, 4.75%, 4/30/2024	660,000	666,273
		12,069,546
Health Care 0.9%		
Aviv Healthcare Properties LP, 6.0%, 10/15/2021	5,000	5,300
Biomet, Inc.:		
6.5%, 8/1/2020	25,000	26,937
6.5%, 10/1/2020	5,000	5,338
Community Health Systems, Inc.:		
144A, 5.125%, 8/1/2021	5,000	5,125
144A, 6.875%, 2/1/2022	10,000	10,600
7.125%, 7/15/2020	125,000	135,312
Endo Finance LLC, 144A, 5.75%, 1/15/2022	15,000	15,300
HCA, Inc.:		
6.5%, 2/15/2020	235,000	264,375
7.5%, 2/15/2022	190,000	219,212
IMS Health, Inc., 144A, 6.0%, 11/1/2020	15,000	15,750
LifePoint Hospitals, Inc., 144A, 5.5%, 12/1/2021	15,000	15,713
Mallinckrodt International Finance SA, 4.75%, 4/15/2023	110,000	106,975
Par Pharmaceutical Companies, Inc., 7.375%, 10/15/2020	20,000	21,500
Salix Pharmaceuticals Ltd., 144A, 6.0%, 1/15/2021	15,000	16,088
Tenet Healthcare Corp., 6.25%, 11/1/2018	60,000	66,600
		930,125
Industrials 1.9%		
ADT Corp.:		
4.125%, 4/15/2019	5,000	5,031
6.25%, 10/15/2021 (b)	10,000	10,600
Alphabet Holding Co., Inc., 7.75%, 11/1/2017 (PIK)	15,000	15,488
Artesyn Escrow, Inc., 144A, 9.75%, 10/15/2020	15,000	14,738

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

	Principal Amount ($)(a)	Value ($)
BE Aerospace, Inc., 6.875%, 10/1/2020	55,000	59,744
Belden, Inc., 144A, 5.5%, 9/1/2022	25,000	25,875
Bombardier, Inc.:		
144A, 4.75%, 4/15/2019	10,000	10,175
144A, 5.75%, 3/15/2022	90,000	92,250
144A, 6.0%, 10/15/2022	15,000	15,375
Covanta Holding Corp., 5.875%, 3/1/2024	10,000	10,338
CTP Transportation Products LLC, 144A, 8.25%, 12/15/2019	15,000	16,162
Darling Ingredients, Inc., 144A, 5.375%, 1/15/2022	10,000	10,375
DigitalGlobe, Inc., 5.25%, 2/1/2021	10,000	9,900
Florida East Coast Holdings Corp., 144A, 6.75%, 5/1/2019	5,000	5,281
FTI Consulting, Inc., 6.0%, 11/15/2022	15,000	15,431
Garda World Security Corp., 144A, 7.25%, 11/15/2021	15,000	15,769
GenCorp, Inc., 7.125%, 3/15/2021	35,000	38,237
Grupo KUO SAB de CV, 144A, 6.25%, 12/4/2022	200,000	209,500
Interactive Data Corp., 144A, 5.875%, 4/15/2019	15,000	15,225
KazAgro National Management Holding JSC, 144A, 4.625%, 5/24/2023	700,000	677,180
Kenan Advantage Group, Inc., 144A, 8.375%, 12/15/2018	35,000	37,450
Meritor, Inc.:		
6.25%, 2/15/2024	10,000	10,475
6.75%, 6/15/2021	15,000	16,134
Navios Maritime Holdings, Inc., 144A, 7.375%, 1/15/2022	45,000	46,350
Odebrecht Finance Ltd., 144A, 5.25%, 6/27/2029	227,000	225,978
Odebrecht Offshore Drilling Finance Ltd., 144A, 6.75%, 10/1/2022	192,840	206,435
Oshkosh Corp., 5.375%, 3/1/2022	8,000	8,240
Spirit AeroSystems, Inc., 144A, 5.25%, 3/15/2022	15,000	15,225
Titan International, Inc., 6.875%, 10/1/2020	35,000	35,525
TransDigm, Inc., 7.5%, 7/15/2021	20,000	22,150
United Rentals North America, Inc.:		
6.125%, 6/15/2023	5,000	5,363
7.625%, 4/15/2022	85,000	95,412
Watco Companies LLC, 144A, 6.375%, 4/1/2023	15,000	15,300
		2,012,711
Information Technology 1.2%		
ACI Worldwide, Inc., 144A, 6.375%, 8/15/2020	5,000	5,263
Activision Blizzard, Inc., 144A, 5.625%, 9/15/2021	50,000	53,875
Audatex North America, Inc., 144A, 6.0%, 6/15/2021	10,000	10,675
BMC Software Finance, Inc., 144A, 8.125%, 7/15/2021	5,000	5,144
CDW LLC, 8.5%, 4/1/2019	160,000	173,200
CyrusOne LP, 6.375%, 11/15/2022	5,000	5,388
Entegris, Inc., 144A, 6.0%, 4/1/2022	10,000	10,300
Equinix, Inc.:		
5.375%, 4/1/2023	45,000	46,012
7.0%, 7/15/2021	140,000	154,700
First Data Corp.:		
144A, 6.75%, 11/1/2020	68,000	73,610
144A, 7.375%, 6/15/2019	190,000	204,012
144A, 8.75%, 1/15/2022 (PIK)	30,000	33,113
Freescale Semiconductor, Inc., 144A, 6.0%, 1/15/2022	15,000	15,975
Hughes Satellite Systems Corp.:		
6.5%, 6/15/2019	15,000	16,725
7.625%, 6/15/2021	50,000	57,250
NCR Corp.:		
144A, 5.875%, 12/15/2021	5,000	5,275
144A, 6.375%, 12/15/2023	10,000	10,850
Tencent Holdings Ltd., 144A, 3.375%, 5/2/2019	400,000	408,948
		1,290,315
Materials 5.9%		
ALROSA Finance SA, 144A, 7.75%, 11/3/2020	200,000	221,260
Anglo American Capital PLC:		
144A, 4.125%, 4/15/2021	350,000	358,257
144A, 4.125%, 9/27/2022 (b)	750,000	755,644
ArcelorMittal, 6.125%, 6/1/2018	500,000	548,750
AuRico Gold, Inc., 144A, 7.75%, 4/1/2020	10,000	9,900
Berry Plastics Corp., 5.5%, 5/15/2022	25,000	25,141
Braskem Finance Ltd., 6.45%, 2/3/2024	500,000	534,375
Cliffs Natural Resources, Inc., 3.95%, 1/15/2018 (b)	386,000	391,145
Evraz Group SA, 144A, 6.75%, 4/27/2018	400,000	394,500
First Quantum Minerals Ltd.:		
144A, 6.75%, 2/15/2020	36,000	37,080
144A, 7.0%, 2/15/2021	36,000	37,035
FMG Resources (August 2006) Pty Ltd., 144A, 6.0%, 4/1/2017 (b)	375,000	387,187
Fresnillo PLC, 144A, 5.5%, 11/13/2023	200,000	209,000
Glencore Funding LLC, 144A, 4.125%, 5/30/2023	50,000	50,217
GTL Trade Finance, Inc., 144A, 5.893%, 4/29/2024 (b)	1,000,000	1,049,000
Hexion U.S. Finance Corp.:		
6.625%, 4/15/2020	100,000	106,000
8.875%, 2/1/2018	20,000	20,800
IAMGOLD Corp., 144A, 6.75%, 10/1/2020	5,000	4,625
Novelis, Inc., 8.75%, 12/15/2020	265,000	294,150
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021	15,000	15,825
Polymer Group, Inc., 7.75%, 2/1/2019	58,000	61,625
Samarco Mineracao SA, 144A, 5.75%, 10/24/2023	200,000	209,940
Yamana Gold, Inc., 144A, 4.95%, 7/15/2024	405,000	407,663
		6,129,119
Telecommunication Services 4.1%		
B Communications Ltd., 144A, 7.375%, 2/15/2021	15,000	16,125
Bharti Airtel International Netherlands BV, 144A, 5.125%, 3/11/2023	400,000	409,780
CC Holdings GS V LLC, 3.849%, 4/15/2023	490,000	491,903

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

	Principal Amount ($)(a)	Value ($)
CenturyLink, Inc.:		
Series V, 5.625%, 4/1/2020	5,000	5,275
Series W, 6.75%, 12/1/2023	10,000	10,925
Cincinnati Bell, Inc., 8.375%, 10/15/2020	235,000	257,619
Colombia Telecomunicaciones SA ESP, 144A, 5.375%, 9/27/2022	200,000	199,700
Digicel Group Ltd., 144A, 8.25%, 9/30/2020	42,000	45,780
Digicel Ltd., 144A, 8.25%, 9/1/2017	195,000	200,616
Frontier Communications Corp.:		
7.125%, 1/15/2023	110,000	116,600
8.5%, 4/15/2020	55,000	64,900
Intelsat Jackson Holdings SA:		
5.5%, 8/1/2023	30,000	29,850
7.5%, 4/1/2021	270,000	295,650
Level 3 Communications, Inc., 8.875%, 6/1/2019	80,000	87,500
Level 3 Financing, Inc.:		
144A, 6.125%, 1/15/2021	10,000	10,713
7.0%, 6/1/2020	160,000	174,800
MetroPCS Wireless, Inc., 6.625%, 11/15/2020	175,000	186,812
Millicom International Cellular SA, 144A, 4.75%, 5/22/2020	200,000	200,000
Oi SA, 144A, 5.75%, 2/10/2022	200,000	199,600
SBA Communications Corp., 5.625%, 10/1/2019	15,000	15,881
Sprint Communications, Inc.:		
6.0%, 11/15/2022	25,000	25,500
144A, 9.0%, 11/15/2018	30,000	36,375
Sprint Corp., 144A, 7.125%, 6/15/2024	15,000	15,900
T-Mobile U.S.A., Inc.:		
6.125%, 1/15/2022	5,000	5,306
6.5%, 1/15/2024	5,000	5,344
tw telecom holdings, Inc.:		
5.375%, 10/1/2022	20,000	21,875
6.375%, 9/1/2023	15,000	17,062
Verizon Communications, Inc., 6.55%, 9/15/2043	120,000	151,013
VimpelCom Holdings BV, 144A, 7.504%, 3/1/2022	500,000	539,375
Windstream Corp.:		
6.375%, 8/1/2023	15,000	15,206
7.5%, 4/1/2023	5,000	5,413
7.75%, 10/15/2020	325,000	352,219
7.75%, 10/1/2021	40,000	43,700
		4,254,317
Utilities 1.2%		
AES Corp., 8.0%, 10/15/2017	3,000	3,495
Calpine Corp.:		
144A, 7.5%, 2/15/2021	182,000	197,470
144A, 7.875%, 7/31/2020	9,000	9,765
Electricite de France SA, 144A, 5.25%, 1/29/2049	400,000	408,052
FirstEnergy Transmission LLC, 144A, 4.35%, 1/15/2025	490,000	495,057
Majapahit Holding BV, REG S, 7.75%, 10/17/2016	100,000	112,500
NRG Energy, Inc., 144A, 6.25%, 5/1/2024	45,000	47,025
		1,273,364
Total Corporate Bonds (Cost $36,696,281)		**37,822,279**

	Principal Amount ($)(a)	Value ($)
Mortgage-Backed Securities Pass-Throughs 9.9%		
Federal Home Loan Mortgage Corp.:		
4.0%, 8/1/2039	734,616	780,989
5.5%, with various maturities from 10/1/2023 until 6/1/2035	1,900,780	2,130,475
6.5%, 3/1/2026	288,171	322,700
Federal National Mortgage Association:		
2.5%*, 9/1/2038	49,746	53,010
4.0%, 11/1/2041 (c)	1,600,000	1,698,250
5.0%, with various maturities from 2/1/2021 until 8/1/2040	1,802,495	1,999,695
5.5%, with various maturities from 12/1/2032 until 8/1/2037	1,870,793	2,097,177
6.0%, with various maturities from 4/1/2024 until 3/1/2025	536,269	603,664
6.5%, with various maturities from 3/1/2017 until 12/1/2037	589,154	659,433
Total Mortgage-Backed Securities Pass-Throughs (Cost $9,851,681)		**10,345,393**
Asset-Backed 2.1%		
Automobile Receivables 1.7%		
AmeriCredit Automobile Receivables Trust, "E", Series 2011-2, 144A, 5.48%, 9/10/2018	1,680,575	**1,748,413**
Miscellaneous 0.4%		
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	400,000	**399,978**
Total Asset-Backed (Cost $2,173,502)		**2,148,391**
Commercial Mortgage-Backed Securities 3.8%		
Banc of America Merrill Lynch Commercial Mortgage, Inc., "A2", Series 2007-2, 5.634%*, 4/10/2049	20,257	20,308
Del Coronado Trust, "M", Series 2013-HDMZ, 144A, 5.152%*, 3/15/2018	125,000	125,787
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"C", Series 2012-HSBC, 144A, 4.021%, 7/5/2032	230,000	239,333
"A4", Series 2007-C1, 5.716%, 2/15/2051	960,000	1,057,116
"F", Series 2007-LD11, 5.991%*, 6/15/2049	650,000	53,222
"G", Series 2007-LD11, 144A, 5.991%*, 6/15/2049	760,000	48,859
"H", Series 2007-LD11, 144A, 5.991%*, 6/15/2049	254,251	15,314
LB-UBS Commercial Mortgage Trust, "A4", Series 2007-C6, 5.858%, 7/15/2040	1,240,890	1,329,606
Merrill Lynch Mortgage Trust, "ASB", Series 2007-C1, 6.033%*, 6/12/2050	943,579	989,661
Wachovia Bank Commercial Mortgage Trust, "H", Series 2007-C32, 144A, 5.933%*, 6/15/2049	770,000	97,867
Total Commercial Mortgage-Backed Securities (Cost $5,904,692)		**3,977,073**

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

	Principal Amount ($)(a)	Value ($)
Collateralized Mortgage Obligations 5.4%		
Countrywide Home Loans, "A2", Series 2006-1, 6.0%, 3/25/2036	380,277	350,109
CS First Boston Mortgage Securities Corp., "10A3", Series 2005-10, 6.0%, 11/25/2035	122,546	83,095
Federal Home Loan Mortgage Corp.:		
"PA", Series 4122, 1.5%, 2/15/2042	425,760	407,340
"ZG", Series 4213, 3.5%, 6/15/2043	1,445,715	1,446,946
"PE", Series 2898, 5.0%, 5/15/2033	22,690	22,874
"JS", Series 3572, Interest Only, 6.648%**, 9/15/2039	700,892	112,143
Federal National Mortgage Association:		
"QD", Series 2005-29, 5.0%, 8/25/2033	84,062	85,566
"EG", Series 2005-22, 5.0%, 11/25/2033	198,439	204,247
"SI", Series 2007-23, Interest Only, 6.618%**, 3/25/2037	277,830	39,284
Government National Mortgage Association:		
"PL", Series 2013-19, 2.5%, 2/20/2043	684,500	588,469
"HX", Series 2012-91, 3.0%, 9/20/2040	405,274	420,593
"PD", Series 2011-25, 4.5%, 10/16/2039	1,000,000	1,085,343
"EI", Series 2011-162, Interest Only, 4.5%, 5/20/2040	1,571,017	194,575
"DI", Series 2011-40, Interest Only, 4.5%, 12/20/2040	3,420,568	310,176
"IM", Series 2010-87, Interest Only, 4.75%, 3/20/2036	890,415	32,084
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	191,860	32,300
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	380,982	67,033
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	158,313	29,093
"AI", Series 2007-38, Interest Only, 6.308%**, 6/16/2037	98,515	15,023
MASTR Alternative Loans Trust:		
"5A1", Series 2005-1, 5.5%, 1/25/2020	120,028	125,771
"8A1", Series 2004-3, 7.0%, 4/25/2034	9,120	9,343
Total Collateralized Mortgage Obligations (Cost $5,813,212)		**5,661,407**

		Principal Amount ($)(a)	Value ($)
Government & Agency Obligations 31.9%			
Other Government Related (d) 3.3%			
Banco de Costa Rica, 144A, 5.25%, 8/12/2018		500,000	512,500
MMC Norilsk Nickel OJSC, 144A, 5.55%, 10/28/2020		200,000	201,000
Queensland Treasury Corp., Series 33, 6.5%, 3/14/2033	AUD	1,478,000	1,746,457
TMK OAO, 144A, 6.75%, 4/3/2020		500,000	487,500
VTB Bank OJSC, 144A, 6.0%, 4/12/2017 (b)		500,000	527,000
			3,474,457
Sovereign Bonds 6.0%			
Federative Republic of Brazil, 4.25%, 1/7/2025		200,000	202,700
Government of France, 0.7%, 7/25/2030	EUR	994,420	1,380,995
Kingdom of Morocco, 144A, 4.25%, 12/11/2022		250,000	250,313
Republic of Belarus, REG S, 8.75%, 8/3/2015		500,000	514,400
Republic of Croatia, 144A, 6.75%, 11/5/2019		640,000	717,600
Republic of El Salvador:			
144A, 7.65%, 6/15/2035		200,000	216,300
REG S, 8.25%, 4/10/2032		40,000	45,500
Republic of Ghana, 144A, 8.5%, 10/4/2017		100,000	105,000
Republic of Hungary, 4.125%, 2/19/2018		50,000	52,125
Republic of Romania, 4.875%, 11/7/2019	EUR	100,000	155,203
Republic of Singapore, 3.375%, 9/1/2033	SGD	2,234,000	1,891,346
Republic of South Africa:			
5.875%, 9/16/2025 (b)		200,000	222,300
Series R204, 8.0%, 12/21/2018	ZAR	550,000	52,553
Republic of Sri Lanka, 144A, 5.125%, 4/11/2019		200,000	203,250
Republic of Turkey, 5.625%, 3/30/2021		250,000	272,500
			6,282,085
U.S. Treasury Obligations 22.6%			
U.S. Treasury Bills:			
0.055%***, 12/11/2014 (e)		151,000	150,966
0.065%***, 8/14/2014 (e)		623,000	622,983
U.S. Treasury Notes:			
0.375%, 4/30/2016		1,000,000	999,688
1.0%, 8/31/2016 (f)		12,650,000	12,780,447
1.0%, 9/30/2016		1,000,000	1,009,688
1.625%, 4/30/2019		6,900,000	6,912,937
2.5%, 5/15/2024		1,144,000	1,142,392
			23,619,101
Total Government & Agency Obligations (Cost $32,944,907)			**33,375,643**

	Principal Amount ($)(a)	Value ($)
Municipal Bonds and Notes 4.0%		
Gwinnett County, GA, Development Authority Revenue, Gwinnett Stadium Project, 6.4%, 1/1/2028	655,000	719,484
Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018	1,343,606	1,395,402
Michigan, Western Michigan University Revenue, 4.41%, 11/15/2014, INS: AMBAC	165,000	166,048
New Jersey, State Economic Development Authority Revenue, Series B, 6.5%, 11/1/2014, INS: AGC	585,000	596,536
Port Authority New York & New Jersey, One Hundred Fiftieth Series, 4.75%, 9/15/2016	930,000	1,006,195

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	313,373
Total Municipal Bonds and Notes (Cost $3,954,007)		**4,197,038**

	Shares	Value ($)

Preferred Stock 0.0%

Financials

Ally Financial, Inc., Series G, 144A, 7.0% (Cost $27,480)	28	**28,211**

	Shares	Value ($)

Securities Lending Collateral 4.5%

Daily Assets Fund Institutional, 0.08% (g) (h) (Cost $4,719,625)	4,719,625	**4,719,625**

Cash Equivalents 7.0%

Central Cash Management Fund, 0.06% (g) (Cost $7,343,711)	7,343,711	**7,343,711**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $109,429,098)†	104.7	**109,618,771**
Other Assets and Liabilities, Net	(4.7)	**(4,872,530)**
Net Assets	100.0	**104,746,241**

* 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, 2014.

** These securities are shown at their current rate as of June 30, 2014.

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

† The cost for federal income tax purposes was $109,429,098. At June 30, 2014, net unrealized appreciation for all securities based on tax cost was $189,673. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $2,591,233 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,401,560.

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

(b) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at June 30, 2014 amounted to $4,543,180, which is 4.3% 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, 2014, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(f) At June 30, 2014, this security has been pledged, in whole or in part, as collateral for open centrally cleared swaps.

(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.

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

At June 30, 2014, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
10 Year U.S. Treasury Note	USD	9/19/2014	98	12,266,844	62,397
Ultra Long U.S. Treasury Bond	USD	9/19/2014	42	6,297,375	53,882
Total unrealized appreciation					**116,279**

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

At June 30, 2014, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
10 Year Canadian Government Bond	CAD	9/19/2014	34	4,332,805	(46,034)
5 Year U.S. Treasury Note	USD	9/30/2014	35	4,181,133	(1,159)
Euro-BTP Italian Government Bond	EUR	9/8/2014	17	2,937,231	(52,640)
Euro-OAT French Government Bond	EUR	9/8/2014	25	4,810,694	(71,195)
U.S. Treasury Long Bond	USD	9/19/2014	35	4,801,563	(28,438)
Total unrealized depreciation					**(199,466)**

At June 30, 2014, open written options contracts were as follows:

Options on Interest Rate Swap Contracts

	Swap Effective/ Expiration Date	Contract Amount	Option Expiration Date	Premiums Received ($)	Value ($) (i)
Call Options Receive Fixed — 4.48% – Pay Floating — LIBOR	5/5/2016 5/11/2026	2,000,000[1]	5/5/2016	**22,450**	**(17,257)**
Put Options Pay Fixed — 2.48% – Receive Floating — LIBOR	5/5/2016 5/11/2016	2,000,000[1]	5/5/2016	22,450	(20,977)
Pay Fixed — 2.796% – Receive Floating — LIBOR	6/5/2015 6/5/2045	1,800,000[3]	6/30/2015	19,260	(15,404)
Pay Fixed — 3.005% – Receive Floating — LIBOR	3/6/2015 3/6/2045	1,800,000[1]	3/4/2015	18,900	(20,771)
Pay Fixed — 3.033% – Receive Floating — LIBOR	10/24/2014 10/24/2044	2,000,000[2]	10/22/2014	25,400	(11,260)
Pay Fixed — 3.035% – Receive Floating — LIBOR	2/15/2015 2/3/2045	1,800,000[3]	1/30/2015	22,230	(20,534)
Pay Fixed — 3.088% – Receive Floating — LIBOR	1/28/2015 1/28/2045	2,000,000[4]	1/26/2015	20,175	(26,358)
Pay Fixed — 3.093% – Receive Floating — LIBOR	10/21/2014 10/21/2044	2,000,000[3]	10/17/2014	27,600	(14,865)
Total Put Options				**156,015**	**(130,169)**
Total				**178,465**	**(147,426)**

(i) Unrealized appreciation on written options on interest rate swap contracts at June 30, 2014 was $31,039.

At June 30, 2014, open interest rate swap contracts were as follows:

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
12/30/2014 12/30/2044	4,000,000	Floating — LIBOR	Fixed — 4.081%	532,775	537,738
12/30/2014 12/30/2024	4,600,000	Fixed — 3.524%	Floating — LIBOR	(294,829)	(294,376)
12/30/2014 12/30/2019	2,000,000	Floating — LIBOR	Fixed — 2.522%	50,730	52,443
5/11/2015 5/11/2045	2,000,000	Fixed — 3.56%	Floating — LIBOR	(42,063)	(40,930)
12/30/2014 12/30/2016	8,700,000	Fixed — 1.173%	Floating — LIBOR	(44,679)	(45,586)
12/30/2014 12/30/2034	4,800,000	Floating — LIBOR	Fixed — 4.01%	513,445	546,913
Total net unrealized appreciation					**756,202**

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

At June 30, 2014, open credit default swap contracts sold were as follows:

Bilateral Swaps

Effective/ Expiration Dates	Notional Amount ($) (j)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (k)	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Appreciation ($)
6/20/2013 9/20/2018	15,000[5]	5.0%	DISH DBS Corp., 6.75%, 6/1/2021, BB–	2,281	1,132	1,149
9/20/2012 12/20/2017	50,000[6]	5.0%	General Motors Corp., 3.3%, 12/20/2017, BB+	7,150	2,581	4,569
Total unrealized appreciation						**5,718**

(j) 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.

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

Counterparties:

1 Nomura International PLC

2 Citigroup, Inc.

3 BNP Paribas

4 Barclays Bank PLC

5 Credit Suisse

6 UBS AG

LIBOR: London Interbank Offered Rate

At June 30, 2014, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	3,132,975	EUR	2,300,000	7/21/2014	16,689	Australia & New Zealand Banking Group Ltd.
USD	3,156,880	JPY	320,000,000	8/4/2014	2,758	Macquarie Bank Ltd.
USD	510,643	MXN	6,700,000	8/18/2014	4,012	Commonwealth Bank of Australia
USD	1,030,318	ZAR	11,200,000	8/18/2014	14,072	Commonwealth Bank of Australia
ZAR	11,200,000	USD	1,045,564	8/18/2014	1,174	Commonwealth Bank of Australia
ZAR	560,000	USD	52,522	8/18/2014	303	Nomura International PLC
RUB	17,650,000	USD	512,569	9/30/2014	3,923	Societe Generale
Total unrealized appreciation					**42,931**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
USD	2,598,507	NOK	15,700,000	7/21/2014	(41,115)	Societe Generale
USD	1,042,822	NOK	6,300,000	7/21/2014	(16,607)	Citigroup. Inc.
USD	3,674,370	NZD	4,200,000	7/21/2014	(4,769)	Citigroup. Inc.
NZD	3,000,000	USD	2,601,828	7/21/2014	(19,316)	Australia & New Zealand Banking Group Ltd.
NOK	11,000,000	USD	1,790,408	7/21/2014	(1,396)	Barclays Bank PLC
NOK	11,000,000	USD	1,790,561	7/21/2014	(1,242)	Societe Generale
NZD	1,200,000	USD	1,041,798	7/21/2014	(6,659)	Citigroup. Inc.
SGD	2,813,990	USD	2,251,799	7/23/2014	(5,004)	Commonwealth Bank of Australia
AUD	1,703,690	USD	1,584,069	7/23/2014	(19,431)	Nomura International PLC
CAD	957,475	USD	869,033	7/23/2014	(27,710)	Barclays Bank PLC
EUR	996,500	USD	1,352,481	7/23/2014	(12,157)	Australia & New Zealand Banking Group Ltd.
Total unrealized depreciation					**(155,406)**	

Currency Abbreviations

AUD	Australian Dollar	NZD	New Zealand Dollar
CAD	Canadian Dollar	RUB	Russian Ruble
EUR	Euro	SGD	Singapore Dollar
JPY	Japanese Yen	USD	United States Dollar
MXN	Mexican Peso	ZAR	South African Rand
NOK	Norwegian Krone		

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

For information on the Fund's policy and additional disclosures regarding 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.

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2014 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 (l)				
Corporate Bonds	$ —	$ 37,822,279	$ —	$ 37,822,279
Mortgage-Backed Securities Pass-Throughs	—	10,345,393	—	10,345,393
Asset-Backed	—	2,148,391	—	2,148,391
Commercial Mortgage-Backed Securities	—	3,977,073	—	3,977,073
Collateralized Mortgage Obligations	—	5,661,407	—	5,661,407
Government & Agency Obligations	—	33,375,643	—	33,375,643
Municipal Bonds and Notes	—	4,197,038	—	4,197,038
Preferred Stock	—	28,211	—	28,211
Short-Term Investments (l)	12,063,336	—	—	12,063,336
Derivatives (m)				
Futures Contracts	116,279	—	—	116,279
Credit Default Swap Contracts	—	5,718	—	5,718
Interest Rate Swap Contracts	—	1,137,094	—	1,137,094
Forward Foreign Currency Exchange Contracts	—	42,931	—	42,931
Total	**$ 12,179,615**	**$ 98,741,178**	**$ —**	**$110,920,793**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (m)				
Futures Contracts	$ (199,466)	$ —	$ —	$ (199,466)
Written Options	—	(147,426)	—	(147,426)
Interest Rate Swap Contracts	—	(380,892)	—	(380,892)
Forward Foreign Currency Exchange Contracts	—	(155,406)	—	(155,406)
Total	**$ (199,466)**	**$ (683,724)**	**$ —**	**$ (883,190)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2014.

(l) See Investment Portfolio for additional detailed categorizations.

(m) Derivatives include 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, 2014 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $97,365,762) — including $4,543,180 of securities loaned	$	97,555,435
Investment in Daily Assets Fund Institutional (cost $4,719,625)*		4,719,625
Investment in Central Cash Management Fund (cost $7,343,711)		7,343,711
Total investments, at value (cost $109,429,098)		109,618,771
Foreign currency, at value (cost $481,651)		466,071
Receivable for investments sold		1,661,205
Receivable for investments sold — when–issued securities		7,166,389
Receivable for Fund shares sold		239,066
Interest receivable		845,426
Receivable for variation margin on futures contracts		40,741
Receivable for variation margin on centrally cleared swaps		6,556
Unrealized appreciation on bilateral swap contracts		5,718
Unrealized appreciation on forward foreign currency exchange contracts		42,931
Upfront payments paid on bilateral swap contracts		3,713
Foreign taxes recoverable		1,273
Other assets		519
Total assets		120,098,379
Liabilities		
Cash overdraft		196,751
Payable upon return of securities loaned		4,719,625
Payable for investments purchased		1,145,188
Payable for investment purchased — when–issued securities		8,843,411
Payable for Fund shares redeemed		24,373
Options written, at value (premiums received $178,465)		147,426
Unrealized depreciation on forward foreign currency exchange contracts		155,406
Accrued management fee		28,201
Accrued Trustees' fees		972
Other accrued expenses and payables		90,785
Total liabilities		15,352,138
Net assets, at value	**$**	**104,746,241**
Net Assets Consist of		
Undistributed net investment income		1,167,907
Net unrealized appreciation (depreciation) on:		
Investments		189,673
Swap contracts		761,920
Futures		(83,187)
Foreign currency		(127,667)
Written options		31,039
Accumulated net realized gain (loss)		(15,797,835)
Paid-in capital		118,604,391
Net assets, at value	**$**	**104,746,241**
Class A		
Net Asset Value, offering and redemption price per share ($104,746,241 ÷ 18,592,775 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**5.63**

* 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, 2014 (Unaudited)

Investment Income		
Income:		
Interest	$	2,018,883
Income distributions — Central Cash Management Fund		1,659
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		4,279
Total income		2,024,821
Expenses:		
Management fee		202,986
Administration fee		52,048
Services to shareholders		1,203
Custodian fee		21,207
Professional fees		44,316
Reports to shareholders		22,236
Trustees' fees and expenses		3,681
Other		7,777
Total expenses before expense reductions		355,454
Expense reductions		(37,638)
Total expenses after expense reductions		317,816
Net investment income		**1,707,005**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		1,049,175
Swap contracts		(238,613)
Futures		262,225
Written options		85,600
Foreign currency		444,218
		1,602,605
Change in net unrealized appreciation (depreciation) on:		
Investments		2,404,073
Swap contracts		778,757
Futures		(76,408)
Written options		(47,495)
Foreign currency		(325,951)
		2,732,976
Net gain (loss)		**4,335,581**
Net increase (decrease) in net assets resulting from operations	**$**	**6,042,586**

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, 2014 (Unaudited)	Year Ended December 31, 2013
Operations:		
Net investment income	$ 1,707,005	$ 3,746,885
Net realized gain (loss)	1,602,605	(1,091,805)
Change in net unrealized appreciation (depreciation)	2,732,976	(6,522,025)
Net increase (decrease) in net assets resulting from operations	6,042,586	(3,866,945)
Distributions to shareholders from:		
Net investment income:		
Class A	(3,659,417)	(4,386,055)
Fund share transactions:		
Class A		
Proceeds from shares sold	4,430,068	5,651,619
Reinvestment of distributions	3,659,417	4,386,055
Payments for shares redeemed	(10,604,818)	(87,153,230)
Net increase (decrease) in net assets from Class A share transactions	(2,515,333)	(77,115,556)
Increase (decrease) in net assets	(132,164)	(85,368,556)
Net assets at beginning of period	104,878,405	190,246,961
Net assets at end of period (including undistributed net investment income of $1,167,907 and $3,120,319, respectively)	**$ 104,746,241**	**$ 104,878,405**

Other Information		
Class A		
Shares outstanding at beginning of period	19,030,134	32,324,964
Shares sold	788,452	1,003,776
Shares issued to shareholders in reinvestment of distributions	662,938	768,136
Shares redeemed	(1,888,749)	(15,066,742)
Net increase (decrease) in Class A shares	(437,359)	(13,294,830)
Shares outstanding at end of period	**18,592,775**	**19,030,134**

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

Financial Highlights

Class A	Six Months Ended 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$ 5.51**	**$ 5.89**	**$ 5.72**	**$ 5.66**	**$ 5.54**	**$ 5.50**
Income (loss) from investment operations:						
Net investment income[a]	.09	.16	.16	.22	.19	.25
Net realized and unrealized gain (loss)	.23	(.33)	.27	.09	.18	.26
Total from investment operations	.32	(.17)	.43	.31	.37	.51
Less distributions from:						
Net investment income	(.20)	(.21)	(.26)	(.25)	(.25)	(.47)
Net asset value, end of period	**$ 5.63**	**$ 5.51**	**$ 5.89**	**$ 5.72**	**$ 5.66**	**$ 5.54**
Total Return (%)	5.88[b]**	(3.03)[b]	7.77	5.68	6.79	10.07
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	105	105	190	112	155	159
Ratio of expenses before expense reductions (%)	.68*	.65	.58	.62	.59	.59
Ratio of expenses after expense reductions (%)	.61*	.56	.58	.62	.59	.59
Ratio of net investment income (%)	3.28*	2.88	2.81	3.86	3.42	4.68
Portfolio turnover rate (%)	98**	418	115	219	357	284

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

Deutsche Variable Series I (formerly 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: Deutsche Bond VIP, Deutsche Core Equity VIP, Deutsche Capital Growth VIP, Deutsche Global Small Cap Growth VIP and Deutsche International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds" and formerly known as DWS Bond VIP, DWS Core Equity VIP, DWS Capital Growth VIP, DWS Global Small Cap Growth VIP and DWS International VIP, respectively). These financial statements report on Deutsche 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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

Debt securities 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 average of the most recent reliable bid quotation or evaluated price, as applicable, obtained from 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 generally 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 Trustees and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors considered 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, 2014, the Fund had securities on loan. The value of the related collateral 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.

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. Additionally, the Fund may be required to post securities and/or cash collateral in accordance with the terms 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, 2013, the Fund had a net tax basis capital loss carryforward of approximately $17,424,000, including a net tax basis pre-enactment capital loss carryforward of approximately $16,421,000, 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; and approximately $1,003,000 of post-enactment short-term losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized. Both pre- and post-enactment losses are 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, 2013 and has determined that no provision for income tax and/or uncertain tax provisions 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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments. 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, 2014, 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, 2014, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2014, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $9,426,000 to $18,564,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $9,788,000 to $21,371,000.

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. The Fund may write or purchase interest rate swaption agreements which are options to enter into a pre-defined swap agreement. 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. Certain options, including options on indices, will require cash settlement by the Fund if exercised. For the six months ended June 30, 2014, the Fund entered into options 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.

There are no open purchased option contracts as of June 30, 2014. 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, 2014, the investment in written options contracts had a total value generally indicative of a range from approximately $60,000 to $147,400.

Swaps. A swap is a contract between two parties to exchange future cash flows at periodic intervals based on the notional amount of the swap. A bilateral swap is a transaction between the fund and a counterparty where cash flows are exchanged between the two parties. A centrally cleared swap is a transaction executed between the fund and a counterparty, then cleared by a clearing member through a central clearinghouse. The central clearinghouse serves as the counterparty, with whom the fund exchanges cash flows.

The value of a 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. Gains or losses are realized when the swap expires or is closed. Certain risks may arise when entering into swap transactions including counterparty default; liquidity; or unfavorable changes in interest rates or the value of the underlying reference security, commodity or index. In connection with bilateral swaps, securities and/or cash may be identified as collateral in accordance with the terms of the swap agreement 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 swap, 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. Upon entering into a centrally cleared swap, 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 notional amount of the swap. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value of the swap. In a cleared swap transaction, counterparty risk is minimized as the central clearinghouse acts as the counterparty.

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.

Credit Default Swaps. Credit default swaps are agreements between a buyer and a seller of protection against predefined credit events for the reference entity. The Fund may enter into credit default swaps 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 of a credit default swap, 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 swap 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 swaps, in which case the Fund functions as the counterparty referenced above. This involves the risk that the swap 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, 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 swaps sold by the Fund. For the six months ended June 30, 2014, the Fund entered into credit default swap agreements to gain exposure to the underlying issuer's credit quality characteristics.

Under the terms of a credit default swap, the Fund receives or makes periodic 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 swap 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, 2014 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2014, the investment in credit default swap contracts sold had a total notional value of $65,000.

Interest Rate Swaps. Interest rate swaps are agreements in which the Fund agrees to pay to 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. The payment obligations are based on the notional amount of the swap. For the six months ended June 30, 2014, the Fund entered into interest rate swap agreements to gain exposure to different parts of the yield curve while managing overall duration.

A summary of the open interest rate swap contracts as of June 30, 2014 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2014, the investment in interest rate swap contracts had a total notional amount of $26,100,000.

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, 2014, 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, 2014, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2014, the investment in forward currency contracts U.S. dollars purchased had a total contract value generally indicative of a range from approximately $11,724,000 to $35,842,000, and the investment in forward currency contracts U.S. dollars sold had a total contract value generally indicative of a range from approximately $4,843,000 to $34,885,000.

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 $9,696,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2014 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (b)	$ —	$ 1,137,094	$ 116,279	$ 1,253,373
Credit Contracts (a)	—	5,718	—	5,718
Foreign Exchange Contracts (c)	42,931	—	—	42,931
	$ 42,931	**$ 1,142,812**	**$ 116,279**	**$ 1,302,022**

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

(a) Unrealized appreciation on bilateral swap contracts

(b) Includes cumulative appreciation of futures contracts and centrally cleared swaps 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)	$ (147,426)	$ —	$ (380,892)	$ (199,466)	$ (727,784)
Foreign Exchange Contracts (c)	—	(155,406)	—	—	(155,406)
	$ (147,426)	**$ (155,406)**	**$ (380,892)**	**$ (199,466)**	**$ (883,190)**

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 and centrally cleared swaps 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, 2014 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contract (a)	$ 85,600	$ —	$ (238,613)	$ 262,225	$ 109,212
Foreign Exchange Contracts (b)	—	431,412	—	—	431,412
	$ 85,600	**$ 431,412**	**$ (238,613)**	**$ 262,225**	**$ 540,624**

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

(a) Net realized gain (loss) from 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)	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a)	$ (47,495)	$ —	$ 778,242	$ (76,408)	$ 654,339
Credit Contracts (b)	—	—	515	—	515
Foreign Exchange Contracts (c)	—	(327,045)	—	—	(327,045)
	$ (47,495)	**$ (327,045)**	**$ 778,757**	**$ (76,408)**	**$ 327,809**

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

(a) Change in net unrealized appreciation (depreciation) on 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, 2014, 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	Financial Instruments and Derivatives Available for Offset	Collateral Received	Net Amount of Derivative Assets
Australia & New Zealand Banking Group Ltd.	$ 16,689	$ (16,689)	$ —	$ —
Commonwealth Bank of Australia	19,258	(5,004)	—	14,254
Credit Suisse	1,149	—	—	1,149
Macquarie Bank Ltd.	2,758	—	—	2,758
Nomura International PLC	303	(303)	—	—
Societe Generale	3,923	(3,923)	—	—
UBS AG	4,569	—	—	4,569
	$ 48,649	**$ (25,919)**	**$ —**	**$ 22,730**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Collateral Pledged	Net Amount of Derivative Liabilities
Australia & New Zealand Banking Group Ltd.	$ 31,473	$ (16,689)	$ —	$ 14,784
Barclays Bank PLC	55,464	—	—	55,464
BNP Paribas	50,803	—	—	50,803
Citigroup, Inc.	39,295	—	—	39,295
Commonwealth Bank of Australia	5,004	(5,004)	—	—
Nomura International PLC	78,436	(303)	—	78,133
Societe Generale	42,357	(3,923)	—	38,434
	$ 302,832	**$ (25,919)**	**$ —**	**$ 276,913**

C. Purchases and Sales of Securities

During the six months ended June 30, 2014, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury obligations) aggregated $92,238,306 and $122,010,981, respectively. Purchases and sales of U.S. Treasury obligations aggregated $18,619,233 and $11,995,468, respectively.

For the six months ended June 30, 2014, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premiums
Outstanding, beginning of period	12,000,000	$ 138,600
Options written	11,400,000	125,465
Options closed	(6,000,000)	(70,850)
Options expired	(2,000,000)	(14,750)
Outstanding, end of period	**15,400,000**	**$ 178,465**

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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate (exclusive of any applicable waivers/reimbursements) of 0.39% of the Fund's average daily net assets.

For the period from January 1, 2014 through April 30, 2015, 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 0.61%.

For the six months ended June 30, 2014, fees waived and/or expenses reimbursed were $37,638.

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, 2014, the Administration Fee was $52,048, of which $8,591 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2014, the amounts charged to the Fund by DSC aggregated $268, of which $133 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $7,964, of which $4,095 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 Deutsche 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 Deutsche 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 Deutsche 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 Deutsche 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, 2014, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $379.

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

At June 30, 2014, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, owning 46%, 24% and 12%, respectively.

G. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

H. Fund Name Change

Effective August 11, 2014, the "DWS Funds" were rebranded "Deutsche Funds."

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, 2014 to June 30, 2014).

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, 2014

Actual Fund Return	Class A
Beginning Account Value 1/1/14	$1,000.00
Ending Account Value 6/30/14	$1,058.80
Expenses Paid per $1,000*	$ 3.11

Hypothetical 5% Fund Return	Class A
Beginning Account Value 1/1/14	$1,000.00
Ending Account Value 6/30/14	$1,021.77
Expenses Paid per $1,000*	$ 3.06

* 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
Deutsche Variable Series I — Deutsche Bond VIP	.61%

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

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

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting"at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of DWS Bond VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2013.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2013, all of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Asset Allocation Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent Trustees were also advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG, a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

As part of the contract review process, the Board carefully considered the fees and expenses of each DWS fund overseen by the Board in light of the fund's performance. In many cases, this led to a negotiation with DIMA of lower expense caps as part of the 2012 and 2013 contract review processes than had previously been in place. As part of these negotiations, the Board indicated that it would consider relaxing these new lower caps in future years following sustained improvements in performance, among other considerations.

In June 2012, Deutsche Bank AG ("DB"), DIMA's parent company, announced that DB would combine its Asset Management (of which DIMA was a part) and Wealth Management divisions. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that it has, and will continue to, reinvest a significant portion of the substantial savings it expects to realize by combining its Asset Management and Wealth Management divisions into the new Asset and Wealth Management ("AWM") division, including ongoing enhancements to its investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service.

The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2012, the Fund's performance (Class A shares) was in the 2nd quartile, 3rd quartile and 4th quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one- and three-year periods and has underperformed its benchmark in the five-year period ended December 31, 2012.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were approximately at the median of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2012). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be lower than the median (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2012) ("Lipper Universe Expenses"). The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size).

The information considered by the Board as part of its review of management fees included information regarding fees charged by DIMA and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DIMA's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and their independent counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Notes

Notes

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS1bond-3 (R-028373-3 8/14)

Deutsche Asset
& Wealth Management

June 30, 2014

Semiannual Report

Deutsche Variable Series I

(formerly DWS Variable Series I)

Deutsche Capital Growth VIP

(formerly DWS Capital Growth 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.

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

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

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

Letter to Shareholders

Dear Shareholder:

I am very pleased to tell you that the DWS funds have been renamed Deutsche funds, aligning more closely with the Deutsche Asset & Wealth Management brand. We are proud to adopt the Deutsche name — a brand that fully represents the global access, discipline and intelligence that support all of our products and services.

Deutsche Asset & Wealth Management combines the asset management and wealth management divisions of Deutsche Bank to deliver a comprehensive suite of active, passive and alternative investment capabilities. Your investment in the Deutsche funds means you have access to the thought leadership and resources of one of the world's largest and most influential financial institutions.

In conjunction with your fund's name change, please note that the Deutsche funds' Web address has changed as well. The former dws-investments.com is now deutschefunds.com.

In addition, key service providers have been renamed as follows:

Former Name	New name, effective August 11, 2014
DWS Investments Distributors, Inc.	DeAWM Distributors, Inc.
DWS Trust Company	DeAWM Trust Company
DWS Investments Service Company	DeAWM Service Company

These changes have no effect on the day-to-day management of your investment, and there is no action required on your part. You will continue to experience the benefits that come from our decades of experience, in-depth research and worldwide network of investment professionals.

Thanks for your continued support. We appreciate your trust and the opportunity to put our capabilities to work for you.

Best regards,

Brian Binder
President, Deutsche Funds

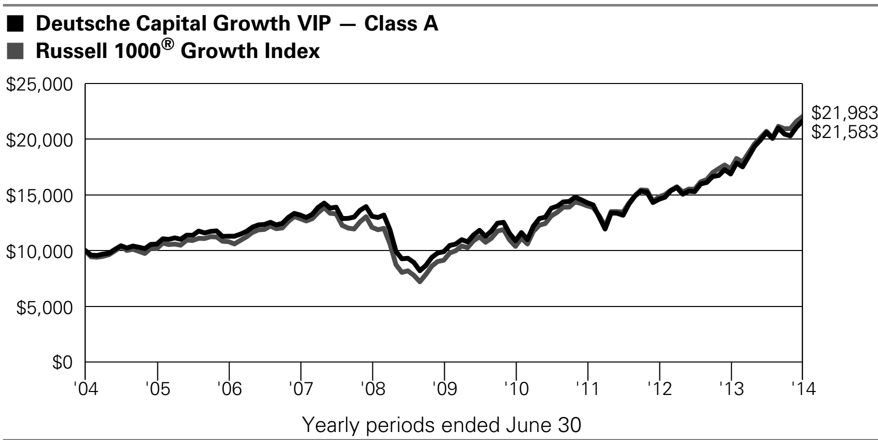
Performance Summary

June 30, 2014 (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, 2014 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

Deutsche Capital Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,497	$12,810	$15,117	$21,818	$21,583
	Average annual total return	4.97%	28.10%	14.77%	16.89%	8.00%
Russell 1000 Growth Index	Growth of $10,000	$10,631	$12,692	$15,714	$24,104	$21,983
	Average annual total return	6.31%	26.92%	16.26%	19.24%	8.20%

Deutsche Capital Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,481	$12,764	$14,967	$21,467	$20,859
	Average annual total return	4.81%	27.64%	14.39%	16.51%	7.63%
Russell 1000 Growth Index	Growth of $10,000	$10,631	$12,692	$15,714	$24,104	$21,983
	Average annual total return	6.31%	26.92%	16.26%	19.24%	8.20%

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)	**6/30/14**	**12/31/13**
Common Stocks	98%	100%
Cash Equivalents	1%	0%
Convertible Bond	1%	—
	100%	100%

Sector Diversification (As a % of Common Stocks and Convertible Bond)	**6/30/14**	**12/31/13**
Information Technology	28%	26%
Consumer Discretionary	19%	21%
Health Care	15%	15%
Industrials	12%	13%
Consumer Staples	10%	10%
Financials	6%	5%
Energy	5%	4%
Materials	5%	5%
Utilities	0%	0%
Telecommunication Services	—	1%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

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 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 deutschefunds.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 99.0%		
Consumer Discretionary 18.8%		
Auto Components 0.9%		
BorgWarner, Inc. (a)	120,174	**7,834,143**
Hotels, Restaurants & Leisure 3.6%		
Brinker International, Inc. (a)	170,625	8,300,906
Las Vegas Sands Corp.	131,097	9,992,214
Norwegian Cruise Line Holdings Ltd.* (a)	70,620	2,238,654
Starwood Hotels & Resorts Worldwide, Inc.	124,593	10,069,606
		30,601,380
Internet & Catalog Retail 2.3%		
Amazon.com, Inc.*	46,381	15,063,621
Expedia, Inc. (a)	54,254	4,273,045
		19,336,666
Media 3.2%		
Twenty-First Century Fox, Inc. "A" (a)	409,221	14,384,118
Walt Disney Co. (a)	149,905	12,852,855
		27,236,973
Specialty Retail 4.8%		
Dick's Sporting Goods, Inc.	171,893	8,003,338
GNC Holdings, Inc. "A"	87,993	3,000,561
Home Depot, Inc. (a)	232,652	18,835,506
L Brands, Inc.	190,059	11,148,861
		40,988,266
Textiles, Apparel & Luxury Goods 4.0%		
NIKE, Inc. "B"	258,561	20,051,406
VF Corp.	213,978	13,480,614
		33,532,020
Consumer Staples 10.2%		
Beverages 2.2%		
PepsiCo, Inc.	211,282	**18,875,934**
Food & Staples Retailing 2.7%		
Costco Wholesale Corp.	118,621	13,660,394
Whole Foods Market, Inc. (a)	231,276	8,934,192
		22,594,586
Food Products 4.0%		
Hillshire Brands Co.	130,385	8,122,986
Mead Johnson Nutrition Co.	132,467	12,341,950
Mondelez International, Inc. "A"	364,700	13,716,367
		34,181,303
Personal Products 1.3%		
Estee Lauder Companies, Inc. "A"	150,566	**11,181,031**
Energy 5.1%		
Energy Equipment & Services 2.3%		
Halliburton Co.	276,149	**19,609,341**
Oil, Gas & Consumable Fuels 2.8%		
EOG Resources, Inc.	69,683	8,143,155
Noble Energy, Inc.	95,512	7,398,360
Pioneer Natural Resources Co.	36,389	8,362,556
		23,904,071
Financials 5.8%		
Capital Markets 2.8%		
Affiliated Managers Group, Inc.*	52,419	10,766,863
Ameriprise Financial, Inc.	59,749	7,169,880
The Charles Schwab Corp.	217,792	5,865,138
		23,801,881
Consumer Finance 1.4%		
Discover Financial Services	185,368	**11,489,109**
Diversified Financial Services 0.8%		
IntercontinentalExchange Group, Inc.	37,489	**7,081,672**
Real Estate Investment Trusts 0.8%		
Crown Castle International Corp. (REIT)	94,735	**7,035,021**
Health Care 15.1%		
Biotechnology 7.1%		
Celgene Corp.* (a)	221,392	19,013,145
Cepheid, Inc.* (a)	140,015	6,712,319
Gilead Sciences, Inc.* (a)	190,380	15,784,406
Medivation, Inc.* (a)	111,797	8,617,313
NPS Pharmaceuticals, Inc.* (a)	307,514	10,163,337
		60,290,520
Health Care Equipment & Supplies 2.2%		
CareFusion Corp.*	234,622	10,405,486
St. Jude Medical, Inc.	117,647	8,147,055
		18,552,541
Health Care Providers & Services 3.0%		
Express Scripts Holding Co.* (a)	204,242	14,160,098
McKesson Corp.	52,963	9,862,240
Premier, Inc. "A"*	61,736	1,790,344
		25,812,682
Life Sciences Tools & Services 1.5%		
Thermo Fisher Scientific, Inc.	104,611	**12,344,098**
Pharmaceuticals 1.3%		
Allergan, Inc.	33,039	5,590,859
Bristol-Myers Squibb Co.	118,778	5,761,921
		11,352,780
Industrials 11.9%		
Aerospace & Defense 2.3%		
Boeing Co.	100,977	12,847,303
TransDigm Group, Inc. (a)	40,230	6,728,870
		19,576,173
Commercial Services & Supplies 0.7%		
Stericycle, Inc.* (a)	51,075	**6,048,301**
Electrical Equipment 1.9%		
AMETEK, Inc.	245,924	12,856,907
Regal-Beloit Corp.	45,514	3,575,580
		16,432,487
Industrial Conglomerates 1.8%		
General Electric Co.	186,675	4,905,819
Roper Industries, Inc. (a)	73,420	10,720,054
		15,625,873
Machinery 3.8%		
Dover Corp. (a)	102,575	9,329,196
Parker Hannifin Corp. (a)	124,466	15,649,110
SPX Corp.	65,141	7,048,908
		32,027,214

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

	Shares	Value ($)
Road & Rail 1.4%		
Norfolk Southern Corp. (a)	113,121	**11,654,857**
Information Technology 26.8%		
Communications Equipment 1.3%		
Ciena Corp.* (a)	85,158	1,844,522
Palo Alto Networks, Inc.*	108,667	9,111,728
		10,956,250
Internet Software & Services 6.4%		
Facebook, Inc. "A"*	200,255	13,475,159
Google, Inc. "A"*	30,937	18,087,936
Google, Inc. "C"*	31,091	17,886,030
LinkedIn Corp. "A"*	27,425	4,702,565
		54,151,690
IT Services 3.5%		
Accenture PLC "A" (a)	60,256	4,871,095
Cognizant Technology Solutions Corp. "A"*	95,652	4,678,339
Sabre Corp.*	79,061	1,585,173
Visa, Inc. "A" (a)	90,194	19,004,778
		30,139,385
Semiconductors & Semiconductor Equipment 1.6%		
Avago Technologies Ltd.	78,985	5,692,449
NXP Semiconductor NV*	58,052	3,841,881
Xilinx, Inc.	79,341	3,753,623
		13,287,953
Software 7.8%		
Intuit, Inc.	79,207	6,378,540
Microsoft Corp.	457,007	19,057,191
Oracle Corp.	384,429	15,580,907
Salesforce.com, Inc.* (a)	67,644	3,928,764
Solera Holdings, Inc.	72,150	4,844,872
Splunk, Inc.* (a)	79,851	4,418,156
VMware, Inc. "A"* (a)	124,965	12,097,862
		66,306,292
Technology Hardware, Storage & Peripherals 6.2%		
Apple, Inc.	484,353	45,010,924
Western Digital Corp.	86,591	7,992,350
		53,003,274
Materials 5.0%		
Chemicals 4.2%		
Ecolab, Inc.	118,876	13,235,654
LyondellBasell Industries NV "A"	124,766	12,183,400
Monsanto Co.	81,754	10,197,994
		35,617,048
Containers & Packaging 0.8%		
Ball Corp.	112,984	**7,081,837**
Utilities 0.3%		
Water Utilities		
American Water Works Co., Inc.	54,096	**2,675,047**
Total Common Stocks (Cost $527,775,879)		**842,219,699**

	Principal Amount ($)	Value ($)
Convertible Bond 0.5%		
Information Technology		
Workday, Inc., 1.5%, 7/15/2020 (Cost $4,031,861)	3,382,000	**4,449,444**

	Shares	Value ($)
Securities Lending Collateral 22.4%		
Daily Assets Fund Institutional, 0.08% (b) (c) (Cost $190,256,686)	190,256,686	**190,256,686**
Cash Equivalents 0.9%		
Central Cash Management Fund, 0.06% (b) (Cost $7,960,143)	7,960,143	**7,960,143**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $730,024,569)†	122.8	**1,044,885,972**
Other Assets and Liabilities, Net	(22.8)	**(193,997,184)**
Net Assets	100.0	**850,888,788**

* Non-income producing security.

† The cost for federal income tax purposes was $730,908,662. At June 30, 2014, net unrealized appreciation for all securities based on tax cost was $313,977,310. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $319,575,611 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $5,598,301.

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at June 30, 2014 amounted to $177,044,585, which is 20.8% 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

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2014 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)	$ 842,219,699	$ —	$ —	$ 842,219,699
Convertible Bond	—	4,449,444	—	4,449,444
Short-Term Investments (d)	198,216,829	—	—	198,216,829
Total	**$1,040,436,528**	**$ 4,449,444**	**$ —**	**$ 1,044,885,972**

There have been no transfers between fair value measurement levels during the period ended June 30, 2014.

(d) See Investment Portfolio for additional detailed categorizations.

Statement of Assets and Liabilities

as of June 30, 2014 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $531,807,740) — including $177,044,585 of securities loaned	$	846,669,143
Investment in Daily Assets Fund Institutional (cost $190,256,686)*		190,256,686
Investment in Central Cash Management Fund (cost $7,960,143)		7,960,143
Total investments in securities, at value (cost $730,024,569)		1,044,885,972
Cash		9,479
Receivable for investments sold		9,107,014
Receivable for Fund shares sold		329,032
Dividends receivable		426,547
Interest receivable		28,843
Other assets		5,074
Total assets		1,054,791,961
Liabilities		
Payable upon return of securities loaned		190,256,686
Payable for investments purchased		12,482,431
Payable for Fund shares redeemed		731,046
Accrued management fee		258,371
Accrued Trustees' fees		1,059
Other accrued expenses and payables		173,580
Total liabilities		203,903,173
Net assets, at value	**$**	**850,888,788**
Net Assets Consist of		
Undistributed net investment income		4,813,782
Net unrealized appreciation (depreciation) on Investments		314,861,403
Accumulated net realized gain (loss)		52,612,491
Paid-in capital		478,601,112
Net assets, at value	**$**	**850,888,788**
Class A		
Net Asset Value, offering and redemption price per share ($847,643,993 ÷ 30,458,731 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**27.83**
Class B		
Net Asset Value, offering and redemption price per share ($3,244,795 ÷ 116,876 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**27.76**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2014 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $14,055)	$	5,951,198
Income distributions — Central Cash Management Fund		950
Interest		12,367
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		27,663
Total income		5,992,178
Expenses:		
Management fee		1,545,878
Administration fee		415,037
Services to shareholders		2,265
Record keeping fee (Class B)		3,406
Distribution and service fees (Class B)		12,098
Custodian fee		11,251
Professional fees		42,455
Reports to shareholders		32,503
Trustees' fees and expenses		16,567
Other		13,946
Total expenses		2,095,406
Net investment income (loss)		**3,896,772**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from Investments		78,176,841
Change in net unrealized appreciation (depreciation) on:		
Investments		(42,126,125)
Foreign currency		(4,925)
		(42,131,050)
Net gain (loss)		**36,045,791**
Net increase (decrease) in net assets resulting from operations	**$**	**39,942,563**

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, 2014 (Unaudited)	Year Ended December 31, 2013
Operations:		
Net investment income (loss)	$ 3,896,772	$ 6,538,509
Net realized gain (loss)	78,176,841	111,903,826
Change in net unrealized appreciation (depreciation)	(42,131,050)	112,661,284
Net increase (decrease) in net assets resulting from operations	39,942,563	231,103,619
Distributions to shareholders from:		
Net investment income:		
Class A	(5,280,971)	(9,616,234)
Class B	(41,098)	(131,767)
Net realized gains:		
Class A	(48,279,027)	—
Class B	(767,015)	—
Total distributions	(54,368,111)	(9,748,001)
Fund share transactions:		
Class A		
Proceeds from shares sold	25,604,845	14,066,914
Reinvestment of distributions	53,559,998	9,616,234
Payments for shares redeemed	(55,318,004)	(105,034,979)
Net increase (decrease) in net assets from Class A share transactions	23,846,839	(81,351,831)
Class B		
Proceeds from shares sold	805,057	760,162
Reinvestment of distributions	808,113	131,767
Payments for shares redeemed	(11,132,378)	(3,806,721)
Net increase (decrease) in net assets from Class B share transactions	(9,519,208)	(2,914,792)
Increase (decrease) in net assets	(97,917)	137,088,995
Net assets at beginning of period	850,986,705	713,897,710
Net assets at end of period (including undistributed net investment income of $4,813,782 and $6,239,079, respectively)	**$ 850,888,788**	**$ 850,986,705**

Other Information		
Class A		
Shares outstanding at beginning of period	29,474,327	32,798,165
Shares sold	907,616	570,579
Shares issued to shareholders in reinvestment of distributions	2,074,361	419,923
Shares redeemed	(1,997,573)	(4,314,340)
Net increase (decrease) in Class A shares	984,404	(3,323,838)
Shares outstanding at end of period	**30,458,731**	**29,474,327**
Class B		
Shares outstanding at beginning of period	484,326	600,771
Shares sold	28,660	31,195
Shares issued to shareholders in reinvestment of distributions	31,359	5,764
Shares redeemed	(427,469)	(153,404)
Net increase (decrease) in Class B shares	(367,450)	(116,445)
Shares outstanding at end of period	**116,876**	**484,326**

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

Financial Highlights

Class A	Six Months Ended 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$28.41**	**$21.38**	**$18.58**	**$19.59**	**$16.93**	**$13.55**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.13	.21	.28	.17	.14[c]	.14
Net realized and unrealized gain (loss)	1.14	7.12	2.70	(1.03)	2.68	3.43
Total from investment operations	1.27	7.33	2.98	(.86)	2.82	3.57
Less distributions from:						
Net investment income	(.18)	(.30)	(.18)	(.15)	(.16)	(.19)
Net realized gains	(1.67)	—	—	—	—	—
Total distributions	(1.85)	(.30)	(.18)	(.15)	(.16)	(.19)
Net asset value, end of period	**$27.83**	**$28.41**	**$21.38**	**$18.58**	**$19.59**	**$16.93**
Total Return (%)	4.97**	34.65	16.05	(4.47)	16.71[b]	26.87[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	848	837	701	677	729	715
Ratio of expenses before expense reductions (%)	.50*	.50	.50	.50	.51	.51
Ratio of expenses after expense reductions (%)	.50*	.50	.50	.50	.51	.49
Ratio of net investment income (loss) (%)	.95*	.85	1.32	.86	.78[c]	.98
Portfolio turnover rate (%)	24**	37	25	47	42	76

[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 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$28.29**	**$21.29**	**$18.51**	**$19.51**	**$16.86**	**$13.49**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.05	.13	.20	.10	.08[c]	.09
Net realized and unrealized gain (loss)	1.18	7.10	2.69	(1.02)	2.67	3.43
Total from investment operations	1.23	7.23	2.89	(.92)	2.75	3.52
Less distributions from:						
Net investment income	(.09)	(.23)	(.11)	(.08)	(.10)	(.15)
Net realized gains	(1.67)	—	—	—	—	—
Total distributions	(1.76)	(.23)	(.11)	(.08)	(.10)	(.15)
Net asset value, end of period	**$27.76**	**$28.29**	**$21.29**	**$18.51**	**$19.51**	**$16.86**
Total Return (%)	4.81**	34.19	15.61	(4.76)	16.33[b]	26.49[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	3	14	13	13	12	12
Ratio of expenses before expense reductions (%)	.82*	.83	.83	.84	.85	.85
Ratio of expenses after expense reductions (%)	.82*	.83	.83	.84	.84	.82
Ratio of net investment income (loss) (%)	.36*	.52	.97	.52	.45[c]	.65
Portfolio turnover rate (%)	24**	37	25	47	42	76

[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

A. Organization and Significant Accounting Policies

Deutsche Variable Series I (formerly 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: Deutsche Bond VIP, Deutsche Core Equity VIP, Deutsche Capital Growth VIP, Deutsche Global Small Cap VIP and Deutsche International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds" and formerly known as DWS Bond VIP, DWS Core Equity VIP, DWS Capital Growth VIP, DWS Global Small Cap Growth VIP and DWS International VIP, respectively). These financial statements report on Deutsche 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities are generally 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.

Debt securities are valued at prices supplied by independent pricing services approved by the Fund's Board. 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, prepayment speeds and other data, as well as broker quotes. If the pricing services are unable to provide valuations, debt securities are valued at the average of the most recent reliable bid quotations or evaluated prices, as applicable, obtained from broker-dealers. These securities 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 considered 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, 2014, the Fund had securities on loan. The value of the related collateral 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, 2013, the Fund had a net tax basis capital loss carryforward of approximately $24,343,000 of pre-enactment losses, all of which was inherited from its merger with other 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, the expiration date, 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, 2013 and has determined that no provision for income tax and/or uncertain tax provisions 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. Realized gains and losses from investment transactions are recorded on an identified cost basis. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

B. Purchases and Sales of Securities

During the six months ended June 30, 2014, purchases and sales of investment securities (excluding short-term investments) aggregated $200,414,878 and $238,297,667, 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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate (exclusive of any applicable waivers/reimbursements) of 0.37% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 30, 2014, the Advisor has contractually agreed to waive all or a portion of 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 each class as follows:

Class A	.80%
Class B	1.13%

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, 2014, the Administration Fee was $415,037, of which $69,379 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it

receives from the Fund. For the six months ended June 30, 2014, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2014
Class A	$ 373	$ 185
Class B	96	52
	$ 469	**$ 237**

Distribution Service Agreement. DeAWM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Series' Distributor. In accordance with the Master Distribution Plan, DDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, DDI 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, 2014, the Distribution Service Fee aggregated $12,098, of which $655 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $6,849, of which $548 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 Deutsche 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 Deutsche 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 Deutsche 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 Deutsche Variable NAV Money Fund.

D. Ownership of the Fund

At June 30, 2014, 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%, 26% and 12%, respectively. Two participating insurance companies were the owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 80% and 11%, respectively.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

F. Fund Name Change

Effective August 11, 2014, the "DWS Funds" were rebranded "Deutsche Funds."

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, 2014 to June 30, 2014).

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, 2014

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,049.70	$1,048.10
Expenses Paid per $1,000*	$ 2.54	$ 4.16

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,022.32	$1,020.73
Expenses Paid per $1,000*	$ 2.51	$ 4.11

* 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**
Deutsche Variable Series I — Deutsche Capital Growth VIP	.50%	.82%

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 the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of DWS Capital Growth VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2013.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2013, all of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent Trustees were also advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG, a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

As part of the contract review process, the Board carefully considered the fees and expenses of each DWS fund overseen by the Board in light of the fund's performance. In many cases, this led to a negotiation with DIMA of lower expense caps as part of the 2012 and 2013 contract review processes than had previously been in place. As part of these negotiations, the Board indicated that it would consider relaxing these new lower caps in future years following sustained improvements in performance, among other considerations.

In June 2012, Deutsche Bank AG ("DB"), DIMA's parent company, announced that DB would combine its Asset Management (of which DIMA was a part) and Wealth Management divisions. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that it has, and will continue to, reinvest a significant portion of the substantial savings it expects to realize by combining its Asset Management and Wealth Management divisions into the new Asset and Wealth Management ("AWM") division, including ongoing enhancements to its investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service.

The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2012, the Fund's performance (Class A shares) was in the 2nd quartile, 3rd quartile and 2nd quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one-year period and has underperformed its benchmark in the three- and five-year periods ended December 31, 2012.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2012). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be lower than the median (1st quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2012) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size).

The information considered by the Board as part of its review of management fees included information regarding fees charged by DIMA and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DIMA's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and their independent counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Notes

Notes

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS1capgro-3 (R-028374-3 8/14)

Deutsche Asset
& Wealth Management

June 30, 2014

Semiannual Report

Deutsche Variable Series I

(formerly DWS Variable Series I)

Deutsche Core Equity VIP

(formerly DWS Core Equity 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. 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.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

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

Letter to Shareholders

Dear Shareholder:

I am very pleased to tell you that the DWS funds have been renamed Deutsche funds, aligning more closely with the Deutsche Asset & Wealth Management brand. We are proud to adopt the Deutsche name — a brand that fully represents the global access, discipline and intelligence that support all of our products and services.

Deutsche Asset & Wealth Management combines the asset management and wealth management divisions of Deutsche Bank to deliver a comprehensive suite of active, passive and alternative investment capabilities. Your investment in the Deutsche funds means you have access to the thought leadership and resources of one of the world's largest and most influential financial institutions.

In conjunction with your fund's name change, please note that the Deutsche funds' Web address has changed as well. The former dws-investments.com is now deutschefunds.com.

In addition, key service providers have been renamed as follows:

Former Name	New name, effective August 11, 2014
DWS Investments Distributors, Inc.	DeAWM Distributors, Inc.
DWS Trust Company	DeAWM Trust Company
DWS Investments Service Company	DeAWM Service Company

These changes have no effect on the day-to-day management of your investment, and there is no action required on your part. You will continue to experience the benefits that come from our decades of experience, in-depth research and worldwide network of investment professionals.

Thanks for your continued support. We appreciate your trust and the opportunity to put our capabilities to work for you.

Best regards,

Brian Binder
President, Deutsche Funds

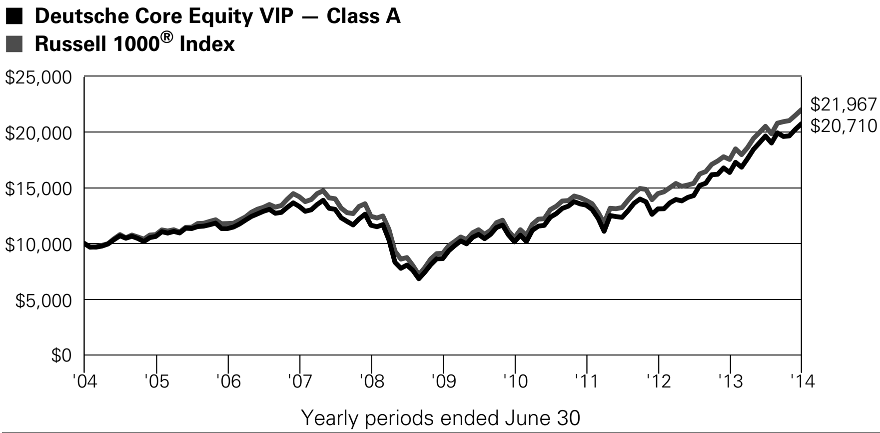
Performance Summary

June 30, 2014 (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, 2014 are 0.56% and 0.76% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

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

Deutsche Core Equity VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,560	$12,668	$15,430	$23,973	$20,710
	Average annual total return	5.60%	26.68%	15.56%	19.11%	7.55%
Russell 1000® Index	Growth of $10,000	$10,727	$12,535	$15,863	$24,117	$21,967
	Average annual total return	7.27%	25.35%	16.63%	19.25%	8.19%

Deutsche Core Equity VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,548	$12,642	$15,312	$23,668	$20,168
	Average annual total return	5.48%	26.42%	15.26%	18.80%	7.27%
Russell 1000® Index	Growth of $10,000	$10,727	$12,535	$15,863	$24,117	$21,967
	Average annual total return	7.27%	25.35%	16.63%	19.25%	8.19%

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)	**6/30/14**	**12/31/13**
Common Stocks	99%	100%
Cash Equivalents	1%	0%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/14**	**12/31/13**
Information Technology	19%	18%
Financials	16%	17%
Health Care	15%	16%
Consumer Discretionary	13%	14%
Industrials	11%	12%
Energy	11%	10%
Consumer Staples	8%	8%
Materials	4%	3%
Utilities	2%	1%
Telecommunication Services	1%	1%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management

Owen Fitzpatrick, CFA
Thomas M. Hynes, Jr., CFA
Brendan O'Neill, CFA
Pankaj Bhatnagar, PhD
Portfolio Managers

	Shares	Value ($)
Common Stocks 99.2%		
Consumer Discretionary 13.0%		
Auto Components 1.2%		
BorgWarner, Inc. (a)	42,193	**2,750,562**
Hotels, Restaurants & Leisure 1.6%		
Las Vegas Sands Corp.	18,048	1,375,619
Starwood Hotels & Resorts Worldwide, Inc.	26,575	2,147,791
		3,523,410
Internet & Catalog Retail 1.6%		
Amazon.com, Inc.*	7,303	2,371,869
Expedia, Inc. (a)	14,320	1,127,843
		3,499,712
Media 1.7%		
Twenty-First Century Fox, Inc. "A"	54,343	1,910,156
Walt Disney Co. (a)	21,635	1,854,985
		3,765,141
Multiline Retail 0.7%		
Macy's, Inc.	28,118	**1,631,406**
Specialty Retail 3.5%		
Dick's Sporting Goods, Inc.	38,993	1,815,514
Home Depot, Inc.	40,944	3,314,827
L Brands, Inc.	46,929	2,752,855
		7,883,196
Textiles, Apparel & Luxury Goods 2.7%		
NIKE, Inc. "B"	53,735	4,167,149
VF Corp.	28,980	1,825,740
		5,992,889
Consumer Staples 8.5%		
Beverages 1.6%		
PepsiCo, Inc.	40,343	**3,604,244**
Food & Staples Retailing 2.3%		
Costco Wholesale Corp.	21,048	2,423,888
Kroger Co.	22,995	1,136,643
Whole Foods Market, Inc. (a)	38,937	1,504,136
		5,064,667
Food Products 2.6%		
Hillshire Brands Co.	24,577	1,531,147
Kraft Foods Group, Inc.	26,790	1,606,060
Mead Johnson Nutrition Co.	28,634	2,667,830
		5,805,037
Household Products 0.9%		
Procter & Gamble Co.	25,519	**2,005,538**
Personal Products 1.1%		
Estee Lauder Companies, Inc. "A"	33,440	**2,483,254**
Energy 11.0%		
Energy Equipment & Services 2.9%		
Halliburton Co.	64,743	4,597,400
Schlumberger Ltd. (a)	16,485	1,944,406
		6,541,806
Oil, Gas & Consumable Fuels 8.1%		
Anadarko Petroleum Corp.	39,777	4,354,388
Antero Resources Corp.* (a)	19,919	1,307,284
Chevron Corp.	42,639	5,566,522
EOG Resources, Inc.	27,756	3,243,566
Pioneer Natural Resources Co.	7,868	1,808,145

	Shares	Value ($)
Valero Energy Corp.	34,350	1,720,935
		18,000,840
Financials 16.0%		
Banks 5.6%		
Citigroup, Inc.	118,766	5,593,878
JPMorgan Chase & Co.	75,622	4,357,340
Regions Financial Corp.	231,156	2,454,877
		12,406,095
Capital Markets 4.6%		
Affiliated Managers Group, Inc.*	19,384	3,981,474
Ameriprise Financial, Inc.	33,972	4,076,640
The Charles Schwab Corp. (a)	82,606	2,224,579
		10,282,693
Consumer Finance 2.1%		
Discover Financial Services	75,303	**4,667,280**
Diversified Financial Services 0.6%		
Intercontinental Exchange, Inc.	7,278	**1,374,814**
Insurance 1.9%		
Prudential Financial, Inc.	48,837	**4,335,261**
Real Estate Investment Trusts 1.2%		
Extra Space Storage, Inc. (REIT)	51,413	**2,737,742**
Health Care 14.9%		
Biotechnology 5.0%		
Celgene Corp.* (a)	49,770	4,274,248
Gilead Sciences, Inc.*	34,321	2,845,554
Medivation, Inc.* (a)	22,711	1,750,564
NPS Pharmaceuticals, Inc.* (a)	67,530	2,231,866
		11,102,232
Health Care Equipment & Supplies 0.7%		
CareFusion Corp.*	37,225	**1,650,929**
Health Care Providers & Services 2.6%		
Express Scripts Holding Co.*	51,432	3,565,780
McKesson Corp.	11,099	2,066,745
Premier, Inc. "A"*	7,123	206,567
		5,839,092
Life Sciences Tools & Services 1.9%		
Thermo Fisher Scientific, Inc.	35,492	**4,188,056**
Pharmaceuticals 4.7%		
Allergan, Inc.	14,879	2,517,824
Bristol-Myers Squibb Co.	20,553	997,026
Merck & Co., Inc.	68,949	3,988,700
Pfizer, Inc.	101,641	3,016,705
		10,520,255
Industrials 11.2%		
Aerospace & Defense 2.2%		
Boeing Co.	24,847	3,161,284
TransDigm Group, Inc.	10,671	1,784,831
		4,946,115
Electrical Equipment 2.1%		
AMETEK, Inc.	63,741	3,332,380
Regal-Beloit Corp.	16,134	1,267,487
		4,599,867

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

	Shares	Value ($)
Industrial Conglomerates 3.1%		
General Electric Co.	147,795	3,884,052
Roper Industries, Inc.	21,179	3,092,346
		6,976,398
Machinery 2.3%		
Parker Hannifin Corp.	21,031	2,644,228
SPX Corp.	23,100	2,499,651
		5,143,879
Road & Rail 1.5%		
Norfolk Southern Corp.	31,374	**3,232,463**
Information Technology 18.6%		
Communications Equipment 1.7%		
Alcatel-Lucent (ADR)	299,173	1,065,056
Ciena Corp.*	22,041	477,408
CommScope Holding Co., Inc.*	54,177	1,253,114
Palo Alto Networks, Inc.*	11,191	938,365
		3,733,943
Internet Software & Services 4.3%		
Facebook, Inc. "A"*	37,252	2,506,687
Google, Inc. "A"*	5,270	3,081,211
Google, Inc. "C"*	5,291	3,043,807
Rackspace Hosting, Inc.*	29,443	991,051
		9,622,756
IT Services 2.2%		
Cognizant Technology Solutions Corp. "A"* (a)	24,716	1,208,859
Sabre Corp.*	20,455	410,123
Visa, Inc. "A" (a)	15,829	3,335,329
		4,954,311
Semiconductors & Semiconductor Equipment 0.8%		
Avago Technologies Ltd.	15,526	1,118,959
Xilinx, Inc.	16,402	775,978
		1,894,937
Software 5.7%		
Intuit, Inc.	18,066	1,454,855
Microsoft Corp.	74,350	3,100,395
Oracle Corp.	72,056	2,920,430
Salesforce.com, Inc.* (a)	17,663	1,025,867
Solera Holdings, Inc.	22,469	1,508,793
VMware, Inc. "A"* (a)	27,939	2,704,775
		12,715,115
Technology Hardware, Storage & Peripherals 3.9%		
Apple, Inc.	73,995	6,876,356
Western Digital Corp.	19,427	1,793,112
		8,669,468
Materials 3.9%		
Chemicals 3.2%		
Ecolab, Inc.	31,331	3,488,394
LyondellBasell Industries NV "A"	20,126	1,965,304
Monsanto Co.	13,187	1,644,946
		7,098,644
Containers & Packaging 0.7%		
Sealed Air Corp.	48,023	**1,640,946**
Telecommunication Services 0.5%		
Wireless Telecommunication Services		
T-Mobile U.S., Inc.*	33,378	**1,122,168**
Utilities 1.6%		
Electric Utilities 0.6%		
NextEra Energy, Inc.	12,008	**1,230,580**
Water Utilities 1.0%		
American Water Works Co., Inc.	45,370	**2,243,546**
Total Common Stocks (Cost $185,131,362)		**221,481,287**

	Principal Amount ($)	Value ($)
Convertible Bond 0.1%		
Health Care		
Cepheid, Inc., 144A, 1.25%, 2/1/2021 (Cost $184,000)	184,000	**189,980**

	Shares	Value ($)
Securities Lending Collateral 9.4%		
Daily Assets Fund Institutional, 0.08% (b) (c) (Cost $20,880,703)	20,880,703	**20,880,703**
Cash Equivalents 0.6%		
Central Cash Management Fund, 0.06% (b) (Cost $1,296,746)	1,296,746	**1,296,746**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $207,492,811)†	109.3	**243,848,716**
Other Assets and Liabilities, Net	(9.3)	**(20,660,412)**
Net Assets	100.0	**223,188,304**

* Non-income producing security.

† The cost for federal income tax purposes was $207,672,598. At June 30, 2014, net unrealized appreciation for all securities based on tax cost was $36,176,118. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $38,464,178 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,288,060.

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at June 30, 2014 amounted to $18,328,303, which is 8.2% 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.

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

ADR: American Depositary Receipt

REIT: Real Estate Investment Trust

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2014 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)	$221,481,287	$ —	$ —	$221,481,287
Convertible Bond	—	189,980	—	189,980
Short-Term Investments (d)	22,177,449	—	—	22,177,449
Total	**$243,658,736**	**$ 189,980**	**$ —**	**$243,848,716**

There have been no transfers between fair value measurement levels during the period ended June 30, 2014.

(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, 2014 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $185,315,362) — including $18,328,303 of securities loaned	$	221,671,267
Investment in Daily Assets Fund Institutional (cost $20,880,703)*		20,880,703
Investment in Central Cash Management Fund (cost $1,296,746)		1,296,746
Total investments in securities, at value (cost $207,492,811)		243,848,716
Cash		276,775
Receivable for investments sold		714,905
Receivable for Fund shares sold		45,893
Dividends receivable		152,240
Interest receivable		1,555
Other assets		1,886
Total assets		245,041,970

Liabilities		
Payable upon return of securities loaned		20,880,703
Payable for investments purchased		690,507
Payable for Fund shares redeemed		123,938
Accrued management fee		71,233
Accrued Trustees' fees		77
Other accrued expenses and payables		87,208
Total liabilities		21,853,666
Net assets, at value	**$**	**223,188,304**

Net Assets Consist of		
Undistributed net investment income		1,085,923
Net unrealized appreciation (depreciation) on investments		36,355,905
Accumulated net realized gain (loss)		(9,944,335)
Paid-in capital		195,690,811
Net assets, at value	**$**	**223,188,304**
Class A		
Net Asset Value, offering and redemption price per share ($221,357,123 ÷ 18,365,965 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**12.05**
Class B		
Net Asset Value, offering and redemption price per share ($1,831,181 ÷ 151,958 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**12.05**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2014 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $1,475)	$	1,798,493
Interest		901
Income distributions — Central Cash Management Fund		171
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		3,422
Total income		1,802,987
Expenses:		
Management fee		423,677
Administration fee		108,635
Services to shareholders		1,764
Distribution service fee (Class B)		2,234
Custodian fee		15,299
Professional fees		37,014
Reports to shareholders		23,385
Trustees' fees and expenses		5,634
Other		5,412
Total expenses		623,054
Net investment income		**1,179,933**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		7,304,512
Change in net unrealized appreciation (depreciation) on investments		3,464,963
Net gain (loss)		**10,769,475**
Net increase (decrease) in net assets resulting from operations	**$**	**11,949,408**

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, 2014 (Unaudited)	Year Ended December 31, 2013
Operations:		
Net investment income	$ 1,179,933	$ 2,438,537
Net realized gain (loss)	7,304,512	48,316,584
Change in net unrealized appreciation (depreciation)	3,464,963	13,479,342
Net increase (decrease) in net assets resulting from operations	11,949,408	64,234,463
Distributions to shareholders from:		
Net investment income:		
Class A	(2,373,232)	(2,931,105)
Class B	(16,034)	(20,449)
Total distributions	(2,389,266)	(2,951,554)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,604,157	12,066,669
Reinvestment of distributions	2,373,232	2,931,105
Payments for shares redeemed	(17,306,150)	(32,588,778)
Net increase (decrease) in net assets from Class A share transactions	(11,328,761)	(17,591,004)
Class B		
Proceeds from shares sold	9,705	61,298
Reinvestment of distributions	16,034	20,449
Payments for shares redeemed	(141,350)	(347,419)
Net increase (decrease) in net assets from Class B share transactions	(115,611)	(265,672)
Increase (decrease) in net assets	(1,884,230)	43,426,233
Net assets at beginning of period	225,072,534	181,646,301
Net assets at end of period (including undistributed net investment income of $1,085,923 and $2,295,256, respectively)	**$ 223,188,304**	**$ 225,072,534**

Other Information		
Class A		
Shares outstanding at beginning of period	19,342,719	21,101,010
Shares sold	313,245	1,197,826
Shares issued to shareholders in reinvestment of distributions	210,580	308,213
Shares redeemed	(1,500,579)	(3,264,330)
Net increase (decrease) in Class A shares	(976,754)	(1,758,291)
Shares outstanding at end of period	**18,365,965**	**19,342,719**
Class B		
Shares outstanding at beginning of period	161,956	188,843
Shares sold	837	5,908
Shares issued to shareholders in reinvestment of distributions	1,423	2,148
Shares redeemed	(12,258)	(34,943)
Net increase (decrease) in Class B shares	(9,998)	(26,887)
Shares outstanding at end of period	**151,958**	**161,956**

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

Financial Highlights

Class A	Six Months Ended 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$11.54**	**$ 8.53**	**$ 7.46**	**$ 7.56**	**$ 6.71**	**$ 5.12**
Income (loss) from investment operations:						
Net investment income[a]	.06	.12	.15	.10	.09	.10
Net realized and unrealized gain (loss)	.58	3.03	1.03	(.10)	.87	1.61
Total from investment operations	.64	3.15	1.18	.00	.96	1.71
Less distributions from:						
Net investment income	(.13)	(.14)	(.11)	(.10)	(.11)	(.12)
Net asset value, end of period	**$12.05**	**$11.54**	**$ 8.53**	**$ 7.46**	**$ 7.56**	**$ 6.71**
Total Return (%)	5.60**	37.33	15.81	(.14)	14.40[b]	34.15[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	221	223	180	85	98	101
Ratio of expenses before expense reductions (%)	.57*	.56	.59	.63	.63	.63
Ratio of expenses after expense reductions (%)	.57*	.56	.59	.63	.60	.54
Ratio of net investment income (%)	1.09*	1.20	1.90	1.25	1.32	1.74
Portfolio turnover rate (%)	26**	238	307	215	145	82

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 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$11.53**	**$ 8.51**	**$ 7.45**	**$ 7.55**	**$ 6.70**	**$ 5.12**
Income (loss) from investment operations:						
Net investment income[a]	.05	.10	.11	.08	.07	.08
Net realized and unrealized gain (loss)	.57	3.03	1.03	(.10)	.87	1.60
Total from investment operations	.62	3.13	1.14	(.02)	.94	1.68
Less distributions from:						
Net investment income	(.10)	(.11)	(.08)	(.08)	(.09)	(.10)
Net asset value, end of period	**$12.05**	**$11.53**	**$ 8.51**	**$ 7.45**	**$ 7.55**	**$ 6.70**
Total Return (%)	5.48**	37.10	15.41	(.40)	14.12[b]	33.64[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 (%)	.83*	.76	.90	.88	.88	.89
Ratio of expenses after expense reductions (%)	.83*	.76	.90	.88	.85	.80
Ratio of net investment income (%)	.83*	1.00	1.41	.99	1.07	1.48
Portfolio turnover rate (%)	26**	238	307	215	145	82

a Based on average shares outstanding during the period.

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

* Annualized

** Not annualized

A. Organization and Significant Accounting Policies

Deutsche Variable Series I (formerly 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: Deutsche Bond VIP, Deutsche Core Equity VIP, Deutsche Capital Growth VIP, Deutsche Global Small Cap VIP and Deutsche International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds" and formerly known as DWS Bond VIP, DWS Core Equity VIP, DWS Capital Growth VIP, DWS Global Small Cap Growth VIP and DWS International VIP, respectively). These financial statements report on Deutsche 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities are generally 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.

Debt securities are valued at prices supplied by independent pricing services approved by the Fund's Board. 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, prepayment speeds and other data, as well as broker quotes. If the pricing services are unable to provide valuations, debt securities are valued at the average of the most recent reliable bid quotations or evaluated prices, as applicable, obtained from broker-dealers are valued at the mean of the most recent bid and ask quotations or evaluated prices, as applicable, obtained from broker-dealers. These securities 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. 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, 2014, the Fund had securities on loan. The value of the related collateral 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, 2013, the Fund had a net tax basis capital loss carryforward of approximately $17,069,000 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, and which may be subject to certain limitations under Sections 381–84 of the Internal Revenue Code.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2013 and has determined that no provision for income tax and/or uncertain tax provisions 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. Realized gains and losses from investment transactions are recorded on an identified cost basis. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

B. Purchases and Sales of Securities

During the six months ended June 30, 2014, purchases and sales of investment securities (excluding short-term investments) aggregated $56,005,744 and $69,630,817, 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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate (exclusive of any applicable waivers/reimbursements) of 0.39% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 30, 2014, the Advisor has contractually agreed to waive its fee 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 expense) of each class as follows:

Class A	.80%
Class B	1.18%

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, 2014, the Administration Fee was $108,635, of which $18,265 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2014, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2014
Class A	$ 276	$ 133
Class B	40	20
	$ 316	**$ 153**

Distribution Service Agreement. DeAWM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Series' Distributor. In accordance with the Master Distribution Plan, DDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, DDI 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, 2014, the Distribution Service Fee aggregated $2,234, of which $375 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $10,141, of which $3,911 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 Deutsche 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 Deutsche 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 Deutsche 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 Deutsche Variable NAV Money Fund.

D. Ownership of the Fund

At June 30, 2014, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 43% and 32%, respectively. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 82% and 15%, respectively.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

F. Fund Name Change

Effective August 11, 2014, the "DWS Funds" were rebranded "Deutsche Funds."

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, 2014 to June 30, 2014).

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, 2014

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,056.00	$1,054.80
Expenses Paid per $1,000*	$ 2.91	$ 4.23
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,021.97	$1,020.68
Expenses Paid per $1,000*	$ 2.86	$ 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**
Deutsche Variable Series I — Deutsche Core Equity VIP	.57%	.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 the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting"at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of DWS Core Equity VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2013.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2013, all of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Asset Allocation Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent Trustees were also advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG, a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

As part of the contract review process, the Board carefully considered the fees and expenses of each DWS fund overseen by the Board in light of the fund's performance. In many cases, this led to a negotiation with DIMA of lower expense caps as part of the 2012 and 2013 contract review processes than had previously been in place. As part of these negotiations, the Board indicated that it would consider relaxing these new lower caps in future years following sustained improvements in performance, among other considerations.

In June 2012, Deutsche Bank AG ("DB"), DIMA's parent company, announced that DB would combine its Asset Management (of which DIMA was a part) and Wealth Management divisions. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that it has, and will continue to, reinvest a significant portion of the substantial savings it expects to realize by combining its Asset Management and Wealth Management divisions into the new Asset and Wealth Management ("AWM") division, including ongoing enhancements to its investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service.

The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2012, the Fund's performance (Class A shares) was in the 2nd quartile, 2nd quartile and 1st quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2012.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2012). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be lower than the median (1st quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2012) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size).

The information considered by the Board as part of its review of management fees included information regarding fees charged by DIMA and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DIMA's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and their independent counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Notes

Notes

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS1coreq-3 (R-028376-3 8/14)

Deutsche Asset
& Wealth Management

June 30, 2014

Semiannual Report

Deutsche Investments VIT Funds

(formerly DWS Investments VIT Funds)

Deutsche Equity 500 Index VIP

(formerly DWS Equity 500 Index 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. 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.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

Letter to Shareholders

Dear Shareholder:

I am very pleased to tell you that the DWS funds have been renamed Deutsche funds, aligning more closely with the Deutsche Asset & Wealth Management brand. We are proud to adopt the Deutsche name — a brand that fully represents the global access, discipline and intelligence that support all of our products and services.

Deutsche Asset & Wealth Management combines the asset management and wealth management divisions of Deutsche Bank to deliver a comprehensive suite of active, passive and alternative investment capabilities. Your investment in the Deutsche funds means you have access to the thought leadership and resources of one of the world's largest and most influential financial institutions.

In conjunction with your fund's name change, please note that the Deutsche funds' Web address has changed as well. The former dws-investments.com is now deutschefunds.com.

In addition, key service providers have been renamed as follows:

Former Name	New name, effective August 11, 2014
DWS Investments Distributors, Inc.	DeAWM Distributors, Inc.
DWS Trust Company	DeAWM Trust Company
DWS Investments Service Company	DeAWM Service Company

These changes have no effect on the day-to-day management of your investment, and there is no action required on your part. You will continue to experience the benefits that come from our decades of experience, in-depth research and worldwide network of investment professionals.

Thanks for your continued support. We appreciate your trust and the opportunity to put our capabilities to work for you.

Best regards,

Brian Binder
President, Deutsche Funds

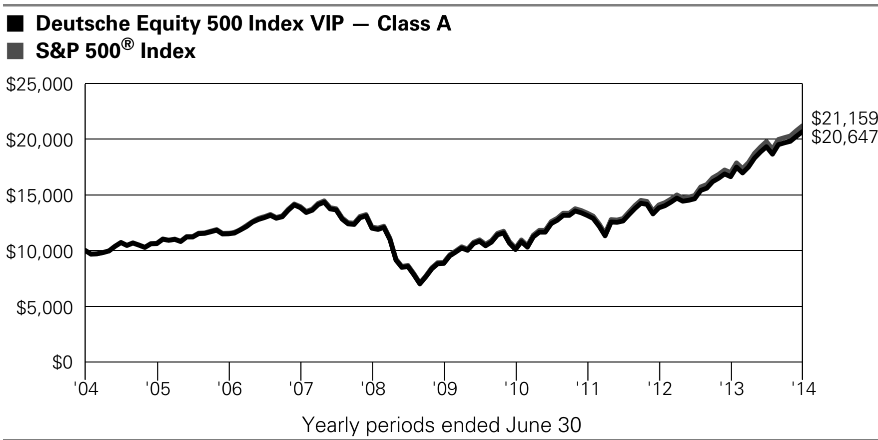
Performance Summary

June 30, 2014 (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, 2014 are 0.34%, 0.59% and 0.74% 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, 2014)

Deutsche Equity 500 Index VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,700	$12,426	$15,713	$23,352	$20,647
	Average annual total return	7.00%	24.26%	16.26%	18.49%	7.52%
S&P 500 Index	Growth of $10,000	$10,714	$12,461	$15,846	$23,698	$21,159
	Average annual total return	7.14%	24.61%	16.58%	18.83%	7.78%

Deutsche Equity 500 Index VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,684	$12,392	$15,599	$23,083	$20,136
	Average annual total return	6.84%	23.92%	15.98%	18.21%	7.25%
S&P 500 Index	Growth of $10,000	$10,714	$12,461	$15,846	$23,698	$21,159
	Average annual total return	7.14%	24.61%	16.58%	18.83%	7.78%

Deutsche Equity 500 Index VIP		6-Month‡	1-Year	3-Year	5-Year	Life of Class*
Class B2	Growth of $10,000	$10,680	$12,374	$15,531	$22,918	$18,057
	Average annual total return	6.80%	23.74%	15.81%	18.04%	6.96%
S&P 500 Index	Growth of $10,000	$10,714	$12,461	$15,846	$23,698	$19,208
	Average annual total return	7.14%	24.61%	16.58%	18.83%	7.74%

The growth of $10,000 is cumulative.

* 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, 2014, which is based on the performance period of the life of Class B2.

‡ 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)	**6/30/14**	**12/31/13**
Common Stocks	98%	98%
Cash Equivalents	2%	2%
Government & Agency Obligations	0%	0%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/14**	**12/31/13**
Information Technology	19%	19%
Financials	16%	16%
Health Care	13%	13%
Consumer Discretionary	12%	12%
Energy	11%	10%
Industrials	11%	11%
Consumer Staples	10%	10%
Materials	3%	4%
Utilities	3%	3%
Telecommunication Services	2%	2%
	100%	100%

Ten Largest Equity Holdings (17.6% of Net Assets)

1.	**Apple, Inc.** Designs, manufactures and markets personal computers and related computing and mobile communications devices	**3.1%**
2.	**Exxon Mobil Corp.** Explorer and producer of oil and gas	**2.4%**
3.	**Google, Inc.** Provides a Web-based search engine for the Internet	**1.8%**
4.	**Microsoft Corp.** Develops, manufactures, licenses, sells and supports software products	**1.8%**
5.	**Johnson & Johnson** Provider of health care products	**1.7%**
6.	**General Electric Co.** Diversified technology, media and financial services company	**1.5%**
7.	**Wells Fargo & Co.** A diversified financial services company	**1.4%**
8.	**Chevron Corp.** Operator of petroleum exploration, delivery and refining facilities	**1.4%**
9.	**Berkshire Hathaway, Inc.** Holding company of insurance business and a variety of other businesses	**1.3%**
10.	**JPMorgan Chase & Co.** Provider of global financial services	**1.2%**

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Manager

Brent Reeder

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

	Shares	Value ($)
Common Stocks 97.8%		
Consumer Discretionary 11.6%		
Auto Components 0.4%		
BorgWarner, Inc.	8,040	524,128
Delphi Automotive PLC	9,610	660,591
Goodyear Tire & Rubber Co.	9,726	270,188
Johnson Controls, Inc.	23,133	1,155,031
		2,609,938
Automobiles 0.7%		
Ford Motor Co.	137,843	2,376,413
General Motors Co.	45,713	1,659,382
Harley-Davidson, Inc.	7,614	531,838
		4,567,633
Distributors 0.1%		
Genuine Parts Co.	5,307	**465,955**
Diversified Consumer Services 0.1%		
Graham Holdings Co. "B"	152	109,153
H&R Block, Inc.	9,676	324,339
		433,492
Hotels, Restaurants & Leisure 1.6%		
Carnival Corp.	15,201	572,318
Chipotle Mexican Grill, Inc.*	1,077	638,133
Darden Restaurants, Inc. (a)	4,654	215,341
Marriott International, Inc. "A"	7,640	489,724
McDonald's Corp.	34,493	3,474,825
Starbucks Corp.	26,258	2,031,844
Starwood Hotels & Resorts Worldwide, Inc.	6,649	537,372
Wyndham Worldwide Corp.	4,386	332,108
Wynn Resorts Ltd.	2,807	582,621
Yum! Brands, Inc.	15,401	1,250,561
		10,124,847
Household Durables 0.4%		
D.R. Horton, Inc.	10,051	247,053
Garmin Ltd. (a)	4,174	254,197
Harman International Industries, Inc.	2,392	256,972
Leggett & Platt, Inc. (a)	4,843	166,018
Lennar Corp. "A"	6,214	260,864
Mohawk Industries, Inc.*	2,153	297,846
Newell Rubbermaid, Inc.	9,523	295,118
PulteGroup, Inc.	12,094	243,815
Whirlpool Corp.	2,663	370,743
		2,392,626
Internet & Catalog Retail 1.3%		
Amazon.com, Inc.*	12,993	4,219,867
Expedia, Inc.	3,596	283,221
Netflix, Inc.*	2,088	919,973
The Priceline.com, Inc.*	1,827	2,197,881
TripAdvisor, Inc.* (a)	3,914	425,295
		8,046,237
Leisure Products 0.1%		
Hasbro, Inc. (a)	4,099	217,452
Mattel, Inc.	11,756	458,131
		675,583
Media 3.5%		
Cablevision Systems Corp. (New York Group) "A" (a)	7,460	131,669
CBS Corp. "B" (a)	18,415	1,144,308
Comcast Corp. "A"	90,627	4,864,857
DIRECTV*	16,332	1,388,383
Discovery Communications, Inc. "A"*	7,594	564,082
Gannett Co., Inc.	8,025	251,263
Interpublic Group of Companies, Inc.	14,963	291,928
News Corp. "A"*	17,562	315,062
Omnicom Group, Inc.	8,968	638,701
Scripps Networks Interactive, Inc. "A"	3,730	302,652
Time Warner Cable, Inc.	9,710	1,430,283
Time Warner, Inc.	30,738	2,159,345
Time, Inc.*	1	12
Twenty-First Century Fox, Inc. "A"	66,737	2,345,806
Viacom, Inc. "B"	13,623	1,181,523
Walt Disney Co.	56,144	4,813,787
		21,823,661
Multiline Retail 0.6%		
Dollar General Corp.*	10,572	606,410
Dollar Tree, Inc.*	7,156	389,716
Family Dollar Stores, Inc.	3,371	222,958
Kohl's Corp.	6,786	357,486
Macy's, Inc.	12,563	728,905
Nordstrom, Inc.	4,883	331,702
Target Corp. (a)	22,086	1,279,884
		3,917,061
Specialty Retail 2.0%		
AutoNation, Inc.*	2,260	134,877
AutoZone, Inc.* (a)	1,158	620,966
Bed Bath & Beyond, Inc.*	7,111	408,029
Best Buy Co., Inc.	9,705	300,952
CarMax, Inc.* (a)	7,655	398,137
GameStop Corp. "A" (a)	4,047	163,782
Home Depot, Inc.	47,696	3,861,468
L Brands, Inc.	8,602	504,593
Lowe's Companies, Inc.	34,765	1,668,372
O'Reilly Automotive, Inc.*	3,686	555,112
PetSmart, Inc. (a)	3,456	206,669
Ross Stores, Inc.	7,399	489,296
Staples, Inc. (a)	22,802	247,174
The Gap, Inc.	9,060	376,624
Tiffany & Co.	3,884	389,371
TJX Companies, Inc.	24,410	1,297,391
Tractor Supply Co.	4,771	288,168
Urban Outfitters, Inc.*	3,551	120,237
		12,031,218
Textiles, Apparel & Luxury Goods 0.8%		
Coach, Inc.	9,540	326,173
Fossil Group, Inc.*	1,697	177,370
Michael Kors Holdings Ltd.*	6,219	551,314
NIKE, Inc. "B"	25,717	1,994,353
PVH Corp.	2,881	335,925
Ralph Lauren Corp.	2,023	325,076
Under Armour, Inc. "A"* (a)	5,674	337,546
VF Corp.	12,004	756,252
		4,804,009

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

	Shares	Value ($)
Consumer Staples 9.3%		
Beverages 2.1%		
Brown-Forman Corp. “B”	5,613	528,576
Coca-Cola Co.	131,786	5,582,455
Coca-Cola Enterprises, Inc.	8,139	388,882
Constellation Brands, Inc. “A”*	5,900	519,967
Dr. Pepper Snapple Group, Inc.	6,795	398,051
Molson Coors Brewing Co. “B”	5,588	414,406
Monster Beverage Corp.*	4,761	338,174
PepsiCo, Inc.	52,862	4,722,691
		12,893,202
Food & Staples Retailing 2.2%		
Costco Wholesale Corp.	15,277	1,759,299
CVS Caremark Corp.	40,753	3,071,554
Kroger Co.	17,746	877,185
Safeway, Inc.	8,113	278,600
Sysco Corp. (a)	20,356	762,332
Wal-Mart Stores, Inc.	56,195	4,218,559
Walgreen Co.	30,602	2,268,526
Whole Foods Market, Inc.	12,811	494,889
		13,730,944
Food Products 1.6%		
Archer-Daniels-Midland Co.	22,805	1,005,929
Campbell Soup Co. (a)	6,310	289,061
ConAgra Foods, Inc.	14,830	440,154
General Mills, Inc.	21,417	1,125,249
Hormel Foods Corp.	4,763	235,054
Kellogg Co.	8,882	583,547
Keurig Green Mountain, Inc. (a)	4,425	551,399
Kraft Foods Group, Inc.	20,745	1,243,663
McCormick & Co., Inc.	4,488	321,296
Mead Johnson Nutrition Co.	7,006	652,749
Mondelez International, Inc. “A”	58,957	2,217,373
The Hershey Co.	5,188	505,156
The JM Smucker Co.	3,655	389,513
Tyson Foods, Inc. “A”	9,485	356,067
		9,916,210
Household Products 1.8%		
Clorox Co.	4,472	408,741
Colgate-Palmolive Co.	30,324	2,067,490
Kimberly-Clark Corp.	13,140	1,461,431
Procter & Gamble Co.	94,362	7,415,910
		11,353,572
Personal Products 0.1%		
Avon Products, Inc.	15,299	223,518
Estee Lauder Companies, Inc. “A”	8,808	654,082
		877,600
Tobacco 1.5%		
Altria Group, Inc.	69,273	2,905,310
Lorillard, Inc.	12,621	769,502
Philip Morris International, Inc.	54,858	4,625,078
Reynolds American, Inc.	10,821	653,047
		8,952,937
Energy 10.6%		
Energy Equipment & Services 2.1%		
Baker Hughes, Inc.	15,201	1,131,714
Cameron International Corp.*	7,055	477,694
Diamond Offshore Drilling, Inc. (a)	2,425	120,353
Ensco PLC “A”	8,056	447,672
FMC Technologies, Inc.*	8,160	498,331
Halliburton Co.	29,448	2,091,103
Helmerich & Payne, Inc.	3,795	440,637
Nabors Industries Ltd.	9,181	269,646
National Oilwell Varco, Inc.	14,961	1,232,038
Noble Corp. PLC	8,955	300,530
Rowan Companies PLC “A”	4,362	139,279
Schlumberger Ltd.	45,413	5,356,463
Transocean Ltd. (a)	11,756	529,373
		13,034,833
Oil, Gas & Consumable Fuels 8.5%		
Anadarko Petroleum Corp.	17,607	1,927,438
Apache Corp.	13,446	1,352,937
Cabot Oil & Gas Corp.	14,548	496,669
Chesapeake Energy Corp. (a)	17,540	545,143
Chevron Corp.	66,370	8,664,603
Cimarex Energy Co.	3,033	435,114
ConocoPhillips	42,804	3,669,587
CONSOL Energy, Inc.	8,086	372,522
Denbury Resources, Inc.	12,040	222,258
Devon Energy Corp.	13,364	1,061,102
EOG Resources, Inc.	19,052	2,226,417
EQT Corp.	5,325	569,243
Exxon Mobil Corp.	149,715	15,073,306
Hess Corp.	9,197	909,491
Kinder Morgan, Inc.	23,294	844,640
Marathon Oil Corp.	23,571	940,954
Marathon Petroleum Corp.	10,061	785,462
Murphy Oil Corp.	5,877	390,703
Newfield Exploration Co.*	4,778	211,188
Noble Energy, Inc.	12,525	970,187
Occidental Petroleum Corp.	27,391	2,811,138
ONEOK, Inc.	7,177	488,610
Peabody Energy Corp. (a)	9,500	155,325
Phillips 66	19,726	1,586,562
Pioneer Natural Resources Co.	4,986	1,145,833
QEP Resources, Inc.	6,325	218,213
Range Resources Corp.	5,889	512,049
Southwestern Energy Co.*	12,241	556,843
Spectra Energy Corp.	23,388	993,522
Tesoro Corp.	4,467	262,079
Valero Energy Corp.	18,600	931,860
Williams Companies, Inc.	25,744	1,498,558
		52,829,556
Financials 15.8%		
Banks 5.8%		
Bank of America Corp.	366,566	5,634,119
BB&T Corp.	25,077	988,786
Citigroup, Inc.	105,898	4,987,796
Comerica, Inc.	6,228	312,396
Fifth Third Bancorp.	29,581	631,554
Huntington Bancshares, Inc.	29,351	280,009
JPMorgan Chase & Co.	131,940	7,602,383
KeyCorp	30,690	439,788
M&T Bank Corp. (a)	4,540	563,187
PNC Financial Services Group, Inc.	18,623	1,658,378
Regions Financial Corp.	48,060	510,397
SunTrust Banks, Inc.	18,566	743,754
U.S. Bancorp.	63,306	2,742,416
Wells Fargo & Co.	167,123	8,783,985
Zions Bancorp.	6,464	190,494
		36,069,442

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

	Shares	Value ($)
Capital Markets 2.1%		
Affiliated Managers Group, Inc.*	1,927	395,806
Ameriprise Financial, Inc.	6,613	793,560
Bank of New York Mellon Corp.	39,727	1,488,968
BlackRock, Inc.	4,360	1,393,456
Charles Schwab Corp.	40,811	1,099,040
E*TRADE Financial Corp.*	10,147	215,725
Franklin Resources, Inc.	13,998	809,644
Invesco Ltd.	14,999	566,212
Legg Mason, Inc. (a)	3,511	180,150
Morgan Stanley	48,760	1,576,411
Northern Trust Corp.	8,044	516,505
State Street Corp.	15,007	1,009,371
T. Rowe Price Group, Inc.	9,112	769,144
The Goldman Sachs Group, Inc.	14,489	2,426,038
		13,240,030
Consumer Finance 1.0%		
American Express Co.	31,748	3,011,933
Capital One Financial Corp.	19,930	1,646,218
Discover Financial Services	16,260	1,007,795
Navient Corp.	14,539	257,485
		5,923,431
Diversified Financial Services 1.8%		
Berkshire Hathaway, Inc. "B"*	62,770	7,944,171
CME Group, Inc.	10,995	780,095
Intercontinental Exchange, Inc.	4,006	756,733
Leucadia National Corp.	10,989	288,132
McGraw Hill Financial, Inc.	9,558	793,601
Moody's Corp.	6,518	571,368
The NASDAQ OMX Group, Inc.	4,095	158,149
		11,292,249
Insurance 2.8%		
ACE Ltd.	11,775	1,221,067
Aflac, Inc.	15,848	986,538
Allstate Corp.	15,138	888,903
American International Group, Inc.	50,436	2,752,797
Aon PLC	10,340	931,531
Assurant, Inc.	2,549	167,087
Chubb Corp.	8,536	786,763
Cincinnati Financial Corp.	5,174	248,559
Genworth Financial, Inc. "A"*	17,490	304,326
Hartford Financial Services Group, Inc.	15,753	564,115
Lincoln National Corp.	9,115	468,876
Loews Corp.	10,566	465,010
Marsh & McLennan Companies, Inc.	19,143	991,990
MetLife, Inc.	39,238	2,180,063
Principal Financial Group, Inc.	9,494	479,257
Progressive Corp.	18,930	480,065
Prudential Financial, Inc.	16,104	1,429,552
The Travelers Companies, Inc.	12,124	1,140,505
Torchmark Corp.	3,001	245,842
Unum Group	8,872	308,391
XL Group PLC	9,428	308,578
		17,349,815
Real Estate Investment Trusts 2.1%		
American Tower Corp. (REIT)	13,808	1,242,444
Apartment Investment & Management Co. "A" (REIT)	5,161	166,545
AvalonBay Communities, Inc. (REIT)	4,220	600,042
Boston Properties, Inc. (REIT)	5,312	627,772
Crown Castle International Corp. (REIT)	11,647	864,906
Equity Residential (REIT)	11,683	736,029
Essex Property Trust, Inc. (REIT)	2,172	401,625
General Growth Properties, Inc. (REIT)	18,389	433,245
HCP, Inc. (REIT)	15,883	657,239
Health Care REIT, Inc. (REIT)	10,618	665,430
Host Hotels & Resorts, Inc. (REIT)	26,241	577,564
Kimco Realty Corp. (REIT)	14,465	332,406
Plum Creek Timber Co., Inc. (REIT)	6,248	281,785
Prologis, Inc. (REIT)	17,383	714,267
Public Storage (REIT)	5,040	863,604
Simon Property Group, Inc. (REIT)	10,864	1,806,466
The Macerich Co. (REIT)	4,956	330,813
Ventas, Inc. (REIT)	10,226	655,487
Vornado Realty Trust (REIT)	6,047	645,396
Weyerhaeuser Co. (REIT) (a)	20,298	671,661
		13,274,726
Real Estate Management & Development 0.1%		
CBRE Group, Inc. "A"*	9,838	**315,210**
Thrifts & Mortgage Finance 0.1%		
Hudson City Bancorp., Inc.	16,672	163,886
People's United Financial, Inc.	10,978	166,536
		330,422

Health Care 13.0%

	Shares	Value ($)
Biotechnology 2.4%		
Alexion Pharmaceuticals, Inc.*	6,896	1,077,500
Amgen, Inc.	26,396	3,124,494
Biogen Idec, Inc.*	8,270	2,607,614
Celgene Corp.*	27,924	2,398,113
Gilead Sciences, Inc.*	53,538	4,438,836
Regeneron Pharmaceuticals, Inc.*	2,778	784,702
Vertex Pharmaceuticals, Inc.*	8,164	772,967
		15,204,226
Health Care Equipment & Supplies 2.1%		
Abbott Laboratories	52,382	2,142,424
Baxter International, Inc.	18,927	1,368,422
Becton, Dickinson & Co.	6,724	795,449
Boston Scientific Corp.*	45,929	586,513
C.R. Bard, Inc.	2,659	380,264
CareFusion Corp.*	7,110	315,328
Covidien PLC	15,718	1,417,449
DENTSPLY International, Inc.	5,003	236,892
Edwards Lifesciences Corp.*	3,663	314,432
Intuitive Surgical, Inc.*	1,347	554,695
Medtronic, Inc.	34,830	2,220,761
St. Jude Medical, Inc.	9,864	683,082
Stryker Corp.	10,277	866,557
Varian Medical Systems, Inc.* (a)	3,646	303,128
Zimmer Holdings, Inc.	5,851	607,685
		12,793,081
Health Care Providers & Services 2.0%		
Aetna, Inc.	12,451	1,009,527
AmerisourceBergen Corp.	7,858	570,962
Cardinal Health, Inc.	11,852	812,573
Cigna Corp.	9,362	861,023
DaVita HealthCare Partners, Inc.*	6,243	451,494
Express Scripts Holding Co.*	26,941	1,867,820
Humana, Inc.	5,434	694,031
Laboratory Corp. of America Holdings*	2,904	297,370

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

	Shares	Value ($)
McKesson Corp.	8,035	1,496,197
Patterson Companies, Inc.	2,906	114,816
Quest Diagnostics, Inc. (a)	5,093	298,908
Tenet Healthcare Corp.*	3,403	159,737
UnitedHealth Group, Inc.	34,152	2,791,926
WellPoint, Inc.	9,743	1,048,444
		12,474,828
Health Care Technology 0.1%		
Cerner Corp.*	10,244	**528,385**
Life Sciences Tools & Services 0.4%		
Agilent Technologies, Inc.	11,591	665,787
PerkinElmer, Inc.	3,988	186,798
Thermo Fisher Scientific, Inc.	13,903	1,640,554
Waters Corp.*	2,996	312,902
		2,806,041
Pharmaceuticals 6.0%		
AbbVie, Inc.	55,425	3,128,187
Actavis PLC* (a)	6,441	1,436,665
Allergan, Inc.	10,372	1,755,150
Bristol-Myers Squibb Co.	57,764	2,802,132
Eli Lilly & Co.	34,337	2,134,731
Forest Laboratories, Inc.*	8,412	832,788
Hospira, Inc.* (a)	5,873	301,696
Johnson & Johnson	98,623	10,317,938
Merck & Co., Inc.	101,872	5,893,295
Mylan, Inc.*	13,120	676,467
Perrigo Co. PLC	4,648	677,493
Pfizer, Inc.	222,361	6,599,675
Zoetis, Inc.	17,334	559,368
		37,115,585
Industrials 10.3%		
Aerospace & Defense 2.6%		
Boeing Co.	23,386	2,975,401
General Dynamics Corp. (a)	11,349	1,322,726
Honeywell International, Inc.	27,299	2,537,442
L-3 Communications Holdings, Inc.	3,028	365,631
Lockheed Martin Corp.	9,289	1,493,021
Northrop Grumman Corp.	7,452	891,483
Precision Castparts Corp.	5,045	1,273,358
Raytheon Co.	10,902	1,005,709
Rockwell Collins, Inc.	4,771	372,806
Textron, Inc.	9,714	371,949
United Technologies Corp.	29,400	3,394,230
		16,003,756
Air Freight & Logistics 0.7%		
C.H. Robinson Worldwide, Inc.	5,111	326,031
Expeditors International of Washington, Inc.	6,880	303,821
FedEx Corp.	9,683	1,465,812
United Parcel Service, Inc. "B"	24,588	2,524,204
		4,619,868
Airlines 0.3%		
Delta Air Lines, Inc.	29,548	1,144,099
Southwest Airlines Co. (a)	24,097	647,245
		1,791,344
Building Products 0.1%		
Allegion PLC	3,189	180,752
Masco Corp.	12,568	279,010
		459,762

	Shares	Value ($)
Commercial Services & Supplies 0.5%		
ADT Corp.	6,069	212,051
Cintas Corp.	3,579	227,410
Iron Mountain, Inc.	6,047	214,366
Pitney Bowes, Inc.	7,122	196,710
Republic Services, Inc.	9,263	351,716
Stericycle, Inc.*	2,918	345,549
Tyco International Ltd.	16,073	732,929
Waste Management, Inc. (a)	15,021	671,889
		2,952,620
Construction & Engineering 0.1%		
Fluor Corp.	5,522	424,642
Jacobs Engineering Group, Inc.*	4,653	247,912
Quanta Services, Inc.*	7,681	265,609
		938,163
Electrical Equipment 0.6%		
AMETEK, Inc.	8,457	442,132
Eaton Corp. PLC	16,625	1,283,117
Emerson Electric Co.	24,491	1,625,223
Rockwell Automation, Inc.	4,815	602,645
		3,953,117
Industrial Conglomerates 2.3%		
3M Co. (a)	21,675	3,104,727
Danaher Corp.	20,974	1,651,283
General Electric Co.	349,573	9,186,779
Roper Industries, Inc.	3,443	502,712
		14,445,501
Machinery 1.7%		
Caterpillar, Inc.	21,765	2,365,203
Cummins, Inc.	5,963	920,031
Deere & Co.	12,684	1,148,536
Dover Corp.	5,803	527,783
Flowserve Corp.	4,724	351,229
Illinois Tool Works, Inc.	13,252	1,160,345
Ingersoll-Rand PLC	8,749	546,900
Joy Global, Inc. (a)	3,513	216,331
PACCAR, Inc.	12,342	775,448
Pall Corp.	3,873	330,715
Parker Hannifin Corp.	5,183	651,659
Pentair PLC	6,787	489,478
Snap-on, Inc.	2,051	243,085
Stanley Black & Decker, Inc.	5,378	472,296
Xylem, Inc.	6,289	245,774
		10,444,813
Professional Services 0.2%		
Dun & Bradstreet Corp.	1,313	144,692
Equifax, Inc.	4,307	312,430
Nielsen NV	10,482	507,434
Robert Half International, Inc.	4,850	231,539
		1,196,095
Road & Rail 1.0%		
CSX Corp.	34,989	1,078,011
Kansas City Southern	3,890	418,214
Norfolk Southern Corp.	10,785	1,111,179
Ryder System, Inc.	1,878	165,433
Union Pacific Corp.	31,571	3,149,207
		5,922,044
Trading Companies & Distributors 0.2%		
Fastenal Co. (a)	9,429	466,641
W.W. Grainger, Inc. (a)	2,121	539,307
		1,005,948

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

	Shares	Value ($)
Information Technology 18.4%		
Communications Equipment 1.7%		
Cisco Systems, Inc.	178,576	4,437,614
F5 Networks, Inc.*	2,672	297,768
Harris Corp.	3,768	285,426
Juniper Networks, Inc.*	16,701	409,842
Motorola Solutions, Inc.	7,822	520,710
QUALCOMM, Inc.	58,840	4,660,128
		10,611,488
Electronic Equipment, Instruments & Components 0.5%		
Amphenol Corp. "A"	5,476	527,558
Corning, Inc.	45,620	1,001,359
FLIR Systems, Inc.	4,943	171,670
Jabil Circuit, Inc.	6,212	129,831
TE Connectivity Ltd.	14,253	881,406
		2,711,824
Internet Software & Services 3.1%		
Akamai Technologies, Inc.*	6,134	374,542
eBay, Inc.*	39,774	1,991,086
Facebook, Inc. "A"*	59,942	4,033,497
Google, Inc. "A"*	9,877	5,774,786
Google, Inc. "C"*	9,877	5,682,041
VeriSign, Inc.* (a)	4,271	208,467
Yahoo!, Inc.*	32,645	1,146,819
		19,211,238
IT Services 3.2%		
Accenture PLC "A"	22,077	1,784,705
Alliance Data Systems Corp.* (a)	1,876	527,625
Automatic Data Processing, Inc.	16,842	1,335,234
Cognizant Technology Solutions Corp. "A"*	21,213	1,037,528
Computer Sciences Corp.	4,983	314,926
Fidelity National Information Services, Inc.	10,045	549,863
Fiserv, Inc.*	8,695	524,482
International Business Machines Corp.	33,173	6,013,270
MasterCard, Inc. "A"	35,037	2,574,168
Paychex, Inc.	11,193	465,181
Teradata Corp.*	5,421	217,924
Total System Services, Inc.	5,802	182,241
Visa, Inc. "A" (a)	17,529	3,693,535
Western Union Co. (a)	18,736	324,882
Xerox Corp.	38,079	473,703
		20,019,267
Semiconductors & Semiconductor Equipment 2.3%		
Altera Corp.	10,912	379,301
Analog Devices, Inc.	10,842	586,227
Applied Materials, Inc.	42,271	953,211
Avago Technologies Ltd.	8,808	634,793
Broadcom Corp. "A"	19,466	722,578
First Solar, Inc.*	2,490	176,939
Intel Corp.	173,539	5,362,355
KLA-Tencor Corp.	5,729	416,155
Lam Research Corp.	5,575	376,758
Linear Technology Corp.	8,324	391,811
Microchip Technology, Inc. (a)	7,025	342,890
Micron Technology, Inc.*	37,423	1,233,088
NVIDIA Corp.	19,555	362,550
Texas Instruments, Inc.	37,628	1,798,242
Xilinx, Inc.	9,417	445,518
		14,182,416

	Shares	Value ($)
Software 3.4%		
Adobe Systems, Inc.*	16,135	1,167,529
Autodesk, Inc.*	8,012	451,717
CA, Inc.	11,027	316,916
Citrix Systems, Inc.* (a)	5,781	361,602
Electronic Arts, Inc.*	10,921	391,736
Intuit, Inc.	9,866	794,509
Microsoft Corp.	262,052	10,927,568
Oracle Corp.	119,695	4,851,238
Red Hat, Inc.*	6,686	369,535
Salesforce.com, Inc.*	19,629	1,140,052
Symantec Corp.	23,940	548,226
		21,320,628
Technology Hardware, Storage & Peripherals 4.2%		
Apple, Inc.	210,198	19,533,700
EMC Corp.	71,454	1,882,098
Hewlett-Packard Co.	65,245	2,197,452
NetApp, Inc.	11,415	416,876
SanDisk Corp.	7,857	820,507
Seagate Technology PLC	11,387	647,009
Western Digital Corp.	7,296	673,421
		26,171,063
Materials 3.4%		
Chemicals 2.5%		
Air Products & Chemicals, Inc.	7,390	950,502
Airgas, Inc.	2,350	255,939
CF Industries Holdings, Inc.	1,797	432,232
Dow Chemical Co.	41,970	2,159,776
E.I. du Pont de Nemours & Co.	32,023	2,095,585
Eastman Chemical Co.	5,234	457,190
Ecolab, Inc.	9,420	1,048,823
FMC Corp.	4,688	333,739
International Flavors & Fragrances, Inc.	2,867	298,971
LyondellBasell Industries NV "A"	14,522	1,418,073
Monsanto Co.	18,275	2,279,623
PPG Industries, Inc.	4,818	1,012,503
Praxair, Inc.	10,212	1,356,562
Sigma-Aldrich Corp.	4,113	417,387
The Mosaic Co.	11,273	557,450
The Sherwin-Williams Co.	2,952	610,798
		15,685,153
Construction Materials 0.1%		
Vulcan Materials Co.	4,610	**293,888**
Containers & Packaging 0.2%		
Avery Dennison Corp.	3,379	173,174
Ball Corp.	4,794	300,488
Bemis Co., Inc.	3,568	145,075
MeadWestvaco Corp.	5,843	258,611
Owens-Illinois, Inc.*	5,819	201,570
Sealed Air Corp.	6,812	232,766
		1,311,684
Metals & Mining 0.5%		
Alcoa, Inc.	40,634	605,040
Allegheny Technologies, Inc. (a)	3,795	171,155
Freeport-McMoRan Copper & Gold, Inc.	36,217	1,321,920
Newmont Mining Corp.	17,572	447,032
Nucor Corp.	11,055	544,459
United States Steel Corp. (a)	5,033	131,059
		3,220,665

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

	Shares	Value ($)
Paper & Forest Products 0.1%		
International Paper Co.	15,096	**761,895**
Telecommunication Services 2.3%		
Diversified Telecommunication Services		
AT&T, Inc.	180,956	6,398,604
CenturyLink, Inc.	19,961	722,588
Frontier Communications Corp. (a)	35,160	205,335
Verizon Communications, Inc.	144,382	7,064,611
Windstream Holdings, Inc. (a)	20,911	208,274
		14,599,412
Utilities 3.1%		
Electric Utilities 1.8%		
American Electric Power Co., Inc.	17,012	948,759
Duke Energy Corp.	24,662	1,829,674
Edison International	11,317	657,631
Entergy Corp.	6,297	516,921
Exelon Corp.	29,933	1,091,956
FirstEnergy Corp.	14,491	503,128
NextEra Energy, Inc.	15,207	1,558,413
Northeast Utilities	10,912	515,810
Pepco Holdings, Inc.	8,830	242,648
Pinnacle West Capital Corp.	3,907	225,981
PPL Corp.	21,964	780,381
Southern Co.	31,092	1,410,955
Xcel Energy, Inc.	17,580	566,603
		10,848,860
Gas Utilities 0.0%		
AGL Resources, Inc.	4,196	**230,906**
Independent Power & Renewable Electricity Producers 0.1%		
AES Corp.	23,259	361,678
NRG Energy, Inc.	11,742	436,802
		798,480
Multi-Utilities 1.2%		
Ameren Corp.	8,561	349,974
CenterPoint Energy, Inc.	15,118	386,114
CMS Energy Corp.	9,428	293,682
Consolidated Edison, Inc.	10,160	586,638
Dominion Resources, Inc.	20,297	1,451,641
DTE Energy Co.	6,116	476,253
Integrys Energy Group, Inc. (a)	2,820	200,587
NiSource, Inc.	11,071	435,533
PG&E Corp.	16,141	775,091
Public Service Enterprise Group, Inc.	17,599	717,863
SCANA Corp.	4,987	268,350
Sempra Energy	7,915	828,780
TECO Energy, Inc.	7,150	132,132
Wisconsin Energy Corp.	7,763	364,241
		7,266,879
Total Common Stocks (Cost $363,346,279)		**607,177,362**

	Principal Amount ($)	Value ($)
Government & Agency Obligation 0.1%		
U.S. Treasury Obligation		
U.S. Treasury Bill, 0.04%**, 10/2/2014 (b) (Cost $699,931)	700,000	**699,928**

	Shares	Value ($)
Securities Lending Collateral 3.6%		
Daily Assets Fund Institutional, 0.08% (c) (d) (Cost $22,303,249)	22,303,249	**22,303,249**
Cash Equivalents 2.2%		
Central Cash Management Fund, 0.06% (c) (Cost $13,489,084)	13,489,084	**13,489,084**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $399,838,543)†	103.7	**643,669,623**
Other Assets and Liabilities, Net	(3.7)	**(22,945,558)**
Net Assets	100.0	**620,724,065**

* Non-income producing security.

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

† The cost for federal income tax purposes was $412,728,080. At June 30, 2014, net unrealized appreciation for all securities based on tax cost was $230,941,543. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $253,199,864 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $22,258,321.

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at June 30, 2014 amounted to $21,847,744, which is 3.5% of net assets.

(b) At June 30, 2014, 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

S&P: Standard & Poor's

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

At June 30, 2014, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
S&P 500 E-Mini Index	USD	9/19/2014	148	14,447,760	**33,560**

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.

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2014 in valuing the Fund's investments.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks (e)	$607,177,362	$ —	$ —	$607,177,362
Government & Agency Obligation	—	699,928	—	699,928
Short-Term Investments (e)	35,792,333	—	—	35,792,333
Derivatives (f)				
Futures Contracts	33,560	—	—	33,560
Total	**$643,003,255**	**$ 699,928**	**$ —**	**$643,703,183**

There have been no transfers between fair value measurement levels during the period ended June 30, 2014.

(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, 2014 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $364,046,210) — including $21,847,744 of securities loaned	$ 607,877,290
Investment in Daily Assets Fund Institutional (cost $22,303,249)*	22,303,249
Investment in Central Cash Management Fund (cost $13,489,084)	13,489,084
Total investments in securities, at value (cost $399,838,543)	643,669,623
Cash	17,329
Receivable for Fund shares sold	5,229
Dividends receivable	652,264
Interest receivable	2,244
Receivable for variation margin on futures contracts	1,598
Foreign taxes recoverable	416
Other assets	3,732
Total assets	644,352,435
Liabilities	
Payable upon return of securities loaned	22,303,249
Payable for investments purchased	584,683
Payable for Fund shares redeemed	454,897
Accrued management fee	98,480
Accrued Trustees' fees	2,412
Other accrued expenses and payables	184,649
Total liabilities	23,628,370
Net assets, at value	**$ 620,724,065**
Net Assets Consist of	
Undistributed net investment income	5,075,992
Net unrealized appreciation (depreciation) on:	
Investments	243,831,080
Futures	33,560
Accumulated net realized gain (loss)	7,509,782
Paid-in capital	364,273,651
Net assets, at value	**$ 620,724,065**
Class A	
Net Asset Value, offering and redemption price per share ($596,196,751 ÷ 30,956,918 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$ 19.26**
Class B	
Net Asset Value, offering and redemption price per share ($5,674,503 ÷ 294,361 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$ 19.28**
Class B2	
Net Asset Value, offering and redemption price per share ($18,852,811 ÷ 977,718 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$ 19.28**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2014 (Unaudited)

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $978)	$ 6,180,697
Interest	60
Income distributions — Central Cash Management Fund	1,384
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	12,356
Total income	6,194,497
Expenses:	
Management fee	606,605
Administration fee	303,302
Services to shareholders	6,293
Record keeping fee (Class B and Class B2)	14,488
Distribution service fees (Class B and Class B2)	30,230
Custodian fee	13,559
Professional fees	41,681
Reports to shareholders	34,078
Trustees' fees and expenses	14,488
Other	17,880
Total expenses before expense reductions	1,082,604
Expense reductions	(41,267)
Total expenses after expense reductions	1,041,337
Net investment income (loss)	**5,153,160**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	19,891,947
Futures	919,816
	20,811,763
Change in net unrealized appreciation (depreciation) on:	
Investments	15,450,905
Futures	(232,798)
	15,218,107
Net gain (loss)	**36,029,870**
Net increase (decrease) in net assets resulting from operations	**$ 41,183,030**

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, 2014 (Unaudited)	Year Ended December 31, 2013
Operations:		
Net investment income (loss)	$ 5,153,160	$ 11,638,966
Net realized gain (loss)	20,811,763	96,448,640
Change in net unrealized appreciation (depreciation)	15,218,107	87,938,875
Net increase (decrease) in net assets resulting from operations	41,183,030	196,026,481
Distributions to shareholders from:		
Net investment income:		
Class A	(11,057,697)	(13,318,863)
Class B	(84,385)	(787,551)
Class B2	(287,223)	(282,229)
Net realized gains:		
Class A	(19,839,875)	(15,821,037)
Class B	(173,737)	(1,084,819)
Class B2	(647,089)	(427,037)
Total distributions	(32,090,006)	(31,721,536)
Fund share transactions:		
Class A		
Proceeds from shares sold	8,265,320	35,505,952
Reinvestment of distributions	30,897,572	29,139,900
Cost of shares redeemed	(51,916,059)	(86,833,091)
In-kind redemptions	—	(198,780,061)
Net increase (decrease) in net assets from Class A share transactions	(12,753,167)	(220,967,300)
Class B		
Proceeds from shares sold	847,535	1,863,922
Reinvestment of distributions	258,122	1,872,370
Cost of shares redeemed	(383,931)	(6,660,194)
In-kind redemptions	—	(45,503,334)
Net increase (decrease) in net assets from Class B share transactions	721,726	(48,427,236)
Class B2		
Proceeds from shares sold	164,960	965,536
Reinvestment of distributions	934,312	709,266
Cost of shares redeemed	(2,654,707)	(4,662,986)
Net increase (decrease) in net assets from Class B2 share transactions	(1,555,435)	(2,988,184)
Increase (decrease) in net assets	4,493,852	(108,077,775)
Net assets at beginning of period	625,217,917	733,295,692
Net assets at end of period (including undistributed net investment income of $5,075,992 and $11,352,137, respectively)	**$ 620,724,065**	**$ 625,217,917**

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2014 (Unaudited)	Year Ended December 31, 2013
Class A		
Shares outstanding at beginning of period	31,567,788	44,517,365
Shares sold	438,060	2,109,689
Shares issued to shareholders in reinvestment of distributions	1,693,946	1,809,932
Shares redeemed	(2,742,876)	(5,155,582)
In-kind redemptions	—	(11,713,616)
Net increase (decrease) in Class A shares	(610,870)	(12,949,577)
Shares outstanding at end of period	**30,956,918**	**31,567,788**
Class B		
Shares outstanding at beginning of period	255,427	3,108,562
Shares sold	44,954	113,444
Shares issued to shareholders in reinvestment of distributions	14,128	116,152
Shares redeemed	(20,148)	(402,912)
In-kind redemptions	—	(2,679,819)
Net increase (decrease) in Class B shares	38,934	(2,853,135)
Shares outstanding at end of period	**294,361**	**255,427**
Class B2		
Shares outstanding at beginning of period	1,058,904	1,234,243
Shares sold	8,729	55,093
Shares issued to shareholders in reinvestment of distributions	51,111	43,999
Shares redeemed	(141,026)	(274,431)
Net increase (decrease) in Class B2 shares	(81,186)	(175,339)
Shares outstanding at end of period	**977,718**	**1,058,904**

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

Financial Highlights

Class A	Six Months Ended 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$19.01**	**$15.01**	**$13.20**	**$13.17**	**$11.68**	**$ 9.55**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.16	.30	.28	.23	.21	.21
Net realized and unrealized gain (loss)	1.12	4.37	1.78	.03	1.51	2.20
Total from investment operations	1.28	4.67	2.06	.26	1.72	2.41
Less distributions from:						
Net investment income	(.37)	(.31)	(.25)	(.23)	(.23)	(.28)
Net realized gains on investment transactions	(.66)	(.36)	—	—	—	—
Total distributions	(1.03)	(.67)	(.25)	(.23)	(.23)	(.28)
Net asset value, end of period	**$19.26**	**$19.01**	**$15.01**	**$13.20**	**$13.17**	**$11.68**
Total Return (%)	7.00[b]**	31.93[b]	15.70	1.83	14.70	26.32[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	596	600	668	632	699	678
Ratio of expenses before expense reductions (%)	.34*	.34	.35	.33	.33	.34
Ratio of expenses after expense reductions (%)	.33*	.34	.35	.33	.33	.32
Ratio of net investment income (loss) (%)	1.71*	1.76	1.95	1.74	1.74	2.10
Portfolio turnover rate (%)	1**	4[c]	4	6	5	8

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 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$19.01**	**$15.00**	**$13.19**	**$13.17**	**$11.68**	**$ 9.54**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.14	.34	.25	.20	.18	.18
Net realized and unrealized gain (loss)	1.11	4.29	1.78	.01	1.51	2.22
Total from investment operations	1.25	4.63	2.03	.21	1.69	2.40
Less distributions from:						
Net investment income	(.32)	(.26)	(.22)	(.19)	(.20)	(.26)
Net realized gains on investment transactions	(.66)	(.36)	—	—	—	—
Total distributions	(.98)	(.62)	(.22)	(.19)	(.20)	(.26)
Net asset value, end of period	**$19.28**	**$19.01**	**$15.00**	**$13.19**	**$13.17**	**$11.68**
Total Return (%)	6.84[b]**	31.68[b]	15.42	1.50	14.52	26.03[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	6	5	47	45	53	50
Ratio of expenses before expense reductions (%)	.60*	.59	.60	.58	.58	.59
Ratio of expenses after expense reductions (%)	.58*	.58	.60	.58	.58	.57
Ratio of net investment income (loss) (%)	1.47*	2.11	1.70	1.49	1.49	1.85
Portfolio turnover rate (%)	1**	4[c]	4	6	5	8

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 6/30/14 (Unaudited)	Years Ended December 31, 2013	2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$18.99**	**$14.99**	**$13.18**	**$13.15**	**$11.67**	**$ 9.54**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.13	.23	.22	.18	.16	.17
Net realized and unrealized gain (loss)	1.11	4.37	1.78	.02	1.50	2.21
Total from investment operations	1.24	4.60	2.00	.20	1.66	2.38
Less distributions from:						
Net investment income	(.29)	(.24)	(.19)	(.17)	(.18)	(.25)
Net realized gains on investment transactions	(.66)	(.36)	—	—	—	—
Total distributions	(.95)	(.60)	(.19)	(.17)	(.18)	(.25)
Net asset value, end of period	**$19.28**	**$18.99**	**$14.99**	**$13.18**	**$13.15**	**$11.67**
Total Return (%)	6.80[b]**	31.44[b]	15.26[b]	1.43	14.29	25.79[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	19	20	19	18	20	21
Ratio of expenses before expense reductions (%)	.74*	.74	.75	.73	.73	.74
Ratio of expenses after expense reductions (%)	.68*	.72	.74	.73	.73	.70
Ratio of net investment income (loss) (%)	1.36*	1.39	1.55	1.34	1.34	1.72
Portfolio turnover rate (%)	1**	4[c]	4	6	5	8

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

Deutsche Investments VIT Funds (formerly 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. Deutsche Equity 500 Index VIP (formerly 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 B and 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities are generally categorized as Level 1.

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 considered 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 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, 2014, the Fund had securities on loan. The value of the related collateral 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, 2013 and has determined that no provision for income tax and/or uncertain tax provisions 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, 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.

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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

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, 2014, 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, 2014 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2014, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $11,047,000 to $14,448,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2014 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)	$ 33,560

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, 2014 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)	$ 919,816

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)	$ (232,798)

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, 2014, purchases and sales of investment securities (excluding short-term investments) aggregated $6,250,052 and $49,073,492, 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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate (exclusive of any applicable waivers/reimbursements) of 0.20% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 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	.33%
Class B	.58%
Class B2	.68%

For the six months ended June 30, 2014, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 34,841
Class B	526
Class B2	5,900
	$ 41,267

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, 2014, the Administration Fee was $303,302, of which $51,004 is unpaid.

Distribution Service Agreement. DeAWM Distributors, Inc. ("DDI"), an affiliate of the Advisor, is the Fund's distributor. In accordance with the Distribution Plan, DDI 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, 2014, the Distribution Service Fees were as follows:

Distribution Service Fees	**Total Aggregated**	**Unpaid at June 30, 2014**
Class B	$ 6,307	$ 1,149
Class B2	23,923	3,873
	$ 30,230	**$ 5,022**

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee they receive from the Fund. For the six months ended June 30, 2014, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at June 30, 2014**
Class A	$ 250	$ 123
Class B	50	25
Class B2	20	10
	$ 320	**$ 158**

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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $11,033, of which $2,215 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 Deutsche 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 Deutsche 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 Deutsche 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 Deutsche 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, 2014, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $1,093.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

F. Ownership of the Fund

At June 30, 2014, 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 19%, respectively. At June 30, 2014, four participating insurance companies were beneficial owners of record of 10% or more of the total outstanding Class B shares of the Fund, owning 41%, 21%, 20% and 19%. At June 30, 2014, 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 year ended December 31, 2013, the Fund realized $75,739,517 of net gain attributable to in-kind redemptions.

H. Fund Name Change

Effective August 11, 2014, the "DWS Funds" were rebranded "Deutsche Funds."

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, 2014 to June 30, 2014).

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, 2014 (Unaudited)

Actual Fund Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,070.00	$1,068.40	$1,068.00
Expenses Paid per $1,000*	$ 1.69	$ 2.97	$ 3.49

Hypothetical 5% Fund Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,023.16	$1,021.92	$1,021.42
Expenses Paid per $1,000*	$ 1.66	$ 2.91	$ 3.41

* 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**	**Class B2**
Deutsche Equity 500 Index VIP	.33%	.58%	.68%

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 the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of DWS Equity 500 Index VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") and sub-advisory agreement (the "Sub-Advisory Agreement" and together with the Agreement, the "Agreements") between DIMA and Northern Trust Investments, Inc. ("NTI") in September 2013.

In terms of the process that the Board followed prior to approving the Agreements, shareholders should know that:

— In September 2013, all of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent Trustees were also advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— In connection with reviewing the Agreements, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreements were approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG, a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

As part of the contract review process, the Board carefully considered the fees and expenses of each DWS fund overseen by the Board in light of the fund's performance. In many cases, this led to a negotiation with DIMA of lower expense caps as part of the 2012 and 2013 contract review processes than had previously been in place. As part of these negotiations, the Board indicated that it would consider relaxing these new lower caps in future years following sustained improvements in performance, among other considerations.

In June 2012, Deutsche Bank AG ("DB"), DIMA's parent company, announced that DB would combine its Asset Management (of which DIMA was a part) and Wealth Management divisions. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that it has, and will continue to, reinvest a significant portion of the substantial savings it expects to realize by combining its Asset Management and Wealth Management divisions into the new Asset and Wealth Management ("AWM") division, including ongoing enhancements to its investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's and NTI's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreements, including the scope of advisory services provided under the Agreements. The Board noted that, under the Agreements, DIMA and NTI provide portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board also requested and received information regarding DIMA's oversight of Fund sub-advisors, including NTI. The

Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2012, the Fund's performance (Class A shares) was in the 2nd quartile, 1st quartile and 2nd quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers).

Fees and Expenses. The Board considered the Fund's investment management fee schedule, sub-advisory fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were higher than the median (3rd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2012). With respect to the sub-advisory fee paid to NTI, the Board noted that the fee is paid by DIMA out of its fee and not directly by the Fund. The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2012) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size).

The information considered by the Board as part of its review of management fees included information regarding fees charged by DIMA and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA and NTI.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available. The Board did not consider the profitability of NTI with respect to the Fund. The Board noted that DIMA pays NTI's fee out of its management fee, and its understanding that the Fund's sub-advisory fee schedule was the product of an arm's length negotiation with DIMA.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and NTI and Their Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and NTI and their affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA and NTI related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA and NTI related to DWS Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DIMA's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters. The Board also considered the attention and resources dedicated by DIMA to the oversight of the investment sub-advisor's compliance program and compliance with the applicable fund policies and procedures.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreements is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and their independent counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreements.

Notes

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

vit-equ500-3 (R-028371-3 8/14)

Deutsche Asset
& Wealth Management

June 30, 2014

Semiannual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche Global Equity VIP

(formerly DWS Global Equity 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.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

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

Letter to Shareholders

Dear Shareholder:

I am very pleased to tell you that the DWS funds have been renamed Deutsche funds, aligning more closely with the Deutsche Asset & Wealth Management brand. We are proud to adopt the Deutsche name — a brand that fully represents the global access, discipline and intelligence that support all of our products and services.

Deutsche Asset & Wealth Management combines the asset management and wealth management divisions of Deutsche Bank to deliver a comprehensive suite of active, passive and alternative investment capabilities. Your investment in the Deutsche funds means you have access to the thought leadership and resources of one of the world's largest and most influential financial institutions.

In conjunction with your fund's name change, please note that the Deutsche funds' Web address has changed as well. The former dws-investments.com is now deutschefunds.com.

In addition, key service providers have been renamed as follows:

Former Name	New name, effective August 11, 2014
DWS Investments Distributors, Inc.	DeAWM Distributors, Inc.
DWS Trust Company	DeAWM Trust Company
DWS Investments Service Company	DeAWM Service Company

These changes have no effect on the day-to-day management of your investment, and there is no action required on your part. You will continue to experience the benefits that come from our decades of experience, in-depth research and worldwide network of investment professionals.

Thanks for your continued support. We appreciate your trust and the opportunity to put our capabilities to work for you.

Best regards,

Brian Binder
President, Deutsche Funds

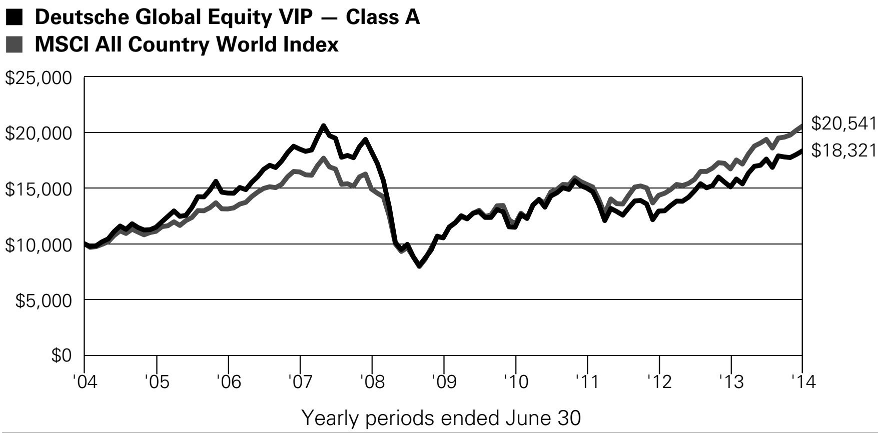
Performance Summary

June 30, 2014 (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, 2014 is 1.08% 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 Deutsche Global Equity VIP



The MSCI All Country 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.

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

Comparative Results

Deutsche Global Equity VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,421	$12,136	$12,226	$17,409	$18,321
	Average annual total return	4.21%	21.36%	6.93%	11.73%	6.24%
MSCI All Country World Index	Growth of $10,000	$10,618	$12,295	$13,402	$19,493	$20,541
	Average annual total return	6.18%	22.95%	10.25%	14.28%	7.46%

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)	**6/30/14**	**12/31/13**
Common Stocks	97%	96%
Cash Equivalents	2%	3%
Participatory Notes	1%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks and Participatory Notes)	**6/30/14**	**12/31/13**
Industrials	19%	9%
Health Care	16%	13%
Financials	14%	12%
Information Technology	12%	9%
Consumer Staples	11%	10%
Energy	10%	7%
Consumer Discretionary	9%	9%
Materials	9%	9%
Telecommunication Services	—	13%
Utilities	—	9%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/14**	**12/31/13**
United States	52%	46%
Continental Europe	25%	32%
United Kingdom	11%	6%
Canada	6%	6%
Asia (excluding Japan)	4%	5%
Latin America	1%	1%
Other	1%	4%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management Team

Nils E. Ernst, PhD
Martin Berberich, CFA
Sebastian P. Werner, PhD
Portfolio Managers

	Shares	Value ($)
Common Stocks 94.9%		
Belgium 2.3%		
Anheuser-Busch InBev NV (Cost $1,166,385)	15,000	**1,723,264**
Brazil 0.8%		
CCR SA (Cost $532,266)	72,000	**586,558**
Canada 5.7%		
Agnico Eagle Mines Ltd.	11,000	421,300
Brookfield Asset Management, Inc. "A"	35,000	1,541,962
Canadian Oil Sands Ltd.	35,000	793,121
Canadian Pacific Railway Ltd.	8,000	1,449,304
(Cost $3,290,049)		**4,205,687**
Denmark 0.2%		
DS Norden AS (Cost $154,594)	3,910	**131,199**
Finland 0.7%		
Nokia Oyj (a) (Cost $534,657)	70,000	**530,056**
France 1.3%		
Pernod Ricard SA (a) (Cost $882,001)	8,000	**960,701**
Germany 2.8%		
BASF SE	7,000	815,021
Fresenius Medical Care AG & Co. KGaA	19,000	1,277,160
(Cost $1,814,353)		**2,092,181**
Indonesia 0.8%		
PT Indofood CBP Sukses Makmur Tbk (Cost $786,372)	700,000	**590,468**
Ireland 2.9%		
Accenture PLC "A" (b)	10,000	808,400
Alkermes PLC* (c)	4,500	226,485
Shire PLC	14,000	1,094,954
(Cost $1,285,819)		**2,129,839**
Italy 2.7%		
Sorin SpA*	165,000	484,404
Unipol Gruppo Finanziario SpA	200,000	1,130,494
World Duty Free SpA*	28,400	346,104
(Cost $1,494,315)		**1,961,002**
Luxembourg 1.3%		
Eurofins Scientific (a) (Cost $712,011)	3,000	**922,635**
Malaysia 0.6%		
IHH Healthcare Bhd. (Cost $390,629)	300,000	**409,218**
Mexico 0.5%		
Alsea SAB de CV* (Cost $335,642)	96,000	**345,196**
Netherlands 1.1%		
Yandex NV "A"* (c) (Cost $690,140)	22,000	**784,080**
Norway 2.3%		
DNO ASA*	207,000	796,095
Norsk Hydro ASA	168,000	899,181
(Cost $1,168,397)		**1,695,276**

	Shares	Value ($)
Philippines 2.4%		
Metropolitan Bank & Trust Co.	520,000	1,041,191
Puregold Price Club, Inc.	730,000	725,819
(Cost $1,754,673)		**1,767,010**
Spain 1.1%		
Atresmedia Corp. de Medios de Comunicaion SA (Cost $885,741)	56,000	**802,081**
Sweden 4.6%		
Assa Abloy AB "B"	7,500	381,648
Atlas Copco AB "A"	38,000	1,098,218
Svenska Cellulosa AB "B"	34,000	885,932
Swedish Match AB	30,000	1,041,675
(Cost $3,175,780)		**3,407,473**
Switzerland 2.0%		
Nestle SA (Registered)	12,515	969,531
Novartis AG (Registered)	5,500	498,027
(Cost $649,478)		**1,467,558**
Thailand 0.2%		
Siam Cement PCL (NVDR) (Cost $109,174)	8,700	**121,165**
United Kingdom 8.8%		
Aberdeen Asset Management PLC	100,000	776,804
Anglo American PLC	50,000	1,223,651
Aon PLC (b)	7,000	630,630
Aveva Group PLC	22,000	767,323
British American Tobacco PLC	14,500	863,076
Halma PLC	40,000	403,548
IMI PLC	15,000	381,728
Intertek Group PLC	17,000	799,789
Rolls-Royce Holdings PLC*	13,000	237,833
Spirax-Sarco Engineering PLC	8,000	374,181
(Cost $6,389,788)		**6,458,563**
United States 49.8%		
Allergan, Inc.	4,500	761,490
Alliance Data Systems Corp.* (a)	5,500	1,546,875
Amgen, Inc.	9,000	1,065,330
Amphenol Corp. "A"	17,000	1,637,780
Bristol-Myers Squibb Co.	14,000	679,140
CBRE Group, Inc. "A"*	30,000	961,200
Cerner Corp.*	17,000	876,860
Colfax Corp.*	18,000	1,341,720
Cynosure, Inc. "A"*	17,000	361,250
Danaher Corp.	13,000	1,023,490
DIRECTV*	12,200	1,037,122
Discovery Communications, Inc. "A"*	11,000	817,080
Eaton Corp. PLC	13,000	1,003,340
Ecolab, Inc.	9,000	1,002,060
Express Scripts Holding Co.*	16,000	1,109,280
Exxon Mobil Corp.	11,000	1,107,480
Fastenal Co. (a)	16,000	791,840
Google, Inc. "C"*	1,000	575,280
JPMorgan Chase & Co.	22,000	1,267,640
Kansas City Southern	3,500	376,285
L Brands, Inc.	13,000	762,580
Las Vegas Sands Corp.	15,000	1,143,300
MasTec, Inc.* (a)	16,000	493,120

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

	Shares	Value ($)
MasterCard, Inc. "A"	21,000	1,542,870
McDonald's Corp.	9,000	906,660
Mead Johnson Nutrition Co.	9,000	838,530
Monster Beverage Corp.*	12,000	852,360
National Oilwell Varco, Inc.	9,000	741,150
Noble Energy, Inc.	20,000	1,549,200
Pall Corp.	14,000	1,195,460
Praxair, Inc.	12,000	1,594,080
ResMed, Inc. (a)	14,000	708,820
Schlumberger Ltd.	8,500	1,002,575
The Travelers Companies, Inc.	12,000	1,128,840
United Technologies Corp.	9,000	1,039,050
W.R. Grace & Co.*	4,000	378,120
Yelp, Inc.*	6,000	460,080
Zoetis, Inc.	25,000	806,750
(Cost $31,903,672)		**36,486,087**
Total Common Stocks (Cost $60,105,936)		**69,577,297**

	Shares	Value ($)
Participatory Note 0.6%		
Nigeria		
Zenith Bank PLC (issuer Merrill Lynch International) Expiration Date 8/21/2015 (Cost $405,600)	3,000,000	**461,184**
Securities Lending Collateral 7.6%		
Daily Assets Fund Institutional, 0.08% (d) (e) (Cost $5,570,286)	5,570,286	**5,570,286**
Cash Equivalents 1.8%		
Central Cash Management Fund, 0.06% (d) (Cost $1,293,263)	1,293,263	**1,293,263**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $$67,375,085)†	104.9	**76,902,030**
Other Assets and Liabilities, Net	(4.9)	**(3,605,994)**
Net Assets	100.0	**73,296,036**

* Non-income producing security.

† The cost for federal income tax purposes was $67,375,119. At June 30, 2014, net unrealized appreciation for all securities based on tax cost was $9,526,911. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $10,315,107 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $788,196.

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at June 30, 2014 amounted to $5,361,623, which is 7.3% of net assets.

(b) Listed on the New York Stock Exchange.

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

(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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2014 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)				
Belgium	$ —	$ 1,723,264	$ —	$ 1,723,264
Brazil	586,558	—	—	586,558
Canada	4,205,687	—	—	4,205,687
Denmark	—	131,199	—	131,199
Finland	—	530,056	—	530,056
France	—	960,701	—	960,701
Germany	—	2,092,181	—	2,092,181
Indonesia	—	590,468	—	590,468
Ireland	1,034,885	1,094,954	—	2,129,839
Italy	—	1,961,002	—	1,961,002
Luxembourg	—	922,635	—	922,635
Malaysia	—	409,218	—	409,218
Mexico	345,196	—	—	345,196
Netherlands	784,080	—	—	784,080
Norway	—	1,695,276	—	1,695,276
Philippines	—	1,767,010	—	1,767,010
Spain	—	802,081	—	802,081
Sweden	—	3,407,473	—	3,407,473
Switzerland	—	1,467,558	—	1,467,558
Thailand	—	121,165	—	121,165
United Kingdom	630,630	5,827,933	—	6,458,563
United States	36,486,087	—	—	36,486,087
Participatory Notes (f)	—	461,184	—	461,184
Short-Term Investments (f)	6,863,549	—	—	6,863,549
Total	**$ 50,936,672**	**$ 25,965,358**	**$ —**	**$ 76,902,030**

There have been no transfers between fair value measurement levels during the period ended June 30, 2014.

(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, 2014 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $60,511,536) — including $5,361,623 of securities loaned	$ 70,038,481
Investment in Daily Assets Fund Institutional (cost $5,570,286)*	5,570,286
Investment in Central Cash Management Fund (cost $1,293,263)	1,293,263
Total investments in securities, at value (cost $67,375,085)	76,902,030
Foreign currency, at value (cost $564,942)	569,231
Receivable for investments sold	1,678,411
Receivable for Fund shares sold	524
Dividends receivable	94,173
Interest receivable	7,512
Foreign taxes recoverable	74,399
Other assets	465
Total assets	79,326,745

Liabilities	
Payable upon return of securities loaned	5,570,286
Payable for investments purchased	292,172
Payable for Fund shares redeemed	27,434
Accrued management fee	46,358
Accrued Trustees' fees	192
Other accrued expenses and payables	94,267
Total liabilities	6,030,709
Net assets, at value	**$ 73,296,036**

Net Assets Consist of	
Undistributed net investment income	349,476
Net unrealized appreciation (depreciation) on:	
Investments	9,526,945
Foreign currency	7,421
Accumulated net realized gain (loss)	(45,382,583)
Paid-in capital	108,794,777
Net assets, at value	**$ 73,296,036**
Class A	
Net Asset Value, offering and redemption price per share ($73,296,036 ÷ 7,722,167 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 9.49**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2014 (Unaudited)

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $66,477)	$ 721,265
Income distributions — Central Cash Management Fund	820
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	24,364
Total income	746,449
Expenses:	
Management fee	232,387
Administration fee	35,752
Services to shareholders	554
Custodian fee	23,254
Professional fees	36,189
Reports to shareholders	14,972
Trustees' fees and expenses	2,277
Other	13,626
Total expenses before expense reductions	359,011
Expense reductions	(1,266)
Total expenses after expense reductions	357,745
Net investment income	**388,704**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	2,064,510
Futures	91,460
Foreign currency	(15,631)
	2,140,339
Change in net unrealized appreciation (depreciation) on:	
Investments	414,784
Foreign currency	7,999
	422,783
Net gain (loss)	**2,563,122**
Net increase (decrease) in net assets resulting from operations	**$ 2,951,826**

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, 2014 (Unaudited)	Year Ended December 31, 2013
Operations:		
Net investment income	$ 388,704	$ 1,174,893
Net realized gain (loss)	2,140,339	17,352,793
Change in net unrealized appreciation (depreciation)	422,783	(6,262,438)
Net increase (decrease) in net assets resulting from operations	2,951,826	12,265,248
Distributions to shareholders from:		
Net investment income:		
Class A	(1,256,998)	(1,676,904)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,087,663	3,395,869
Reinvestment of distributions	1,256,998	1,676,904
Payments for shares redeemed	(3,730,928)	(9,660,444)
Net increase (decrease) in net assets from Class A share transactions	(1,386,267)	(4,587,671)
Increase (decrease) in net assets	308,561	6,000,673
Net assets at beginning of period	72,987,475	66,986,802
Net assets at end of period (including undistributed net investment income of $349,476 and $1,217,770, respectively)	**$ 73,296,036**	**$ 72,987,475**

Other Information		
Class A		
Shares outstanding at beginning of period	7,869,570	8,411,945
Shares sold	117,523	404,553
Shares issued to shareholders in reinvestment of distributions	138,132	202,770
Shares redeemed	(403,058)	(1,149,698)
Net increase (decrease) in Class A shares	(147,403)	(542,375)
Shares outstanding at end of period	**7,722,167**	**7,869,570**

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

Financial Highlights

Class A	Six Months Ended 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$ 9.27**	**$ 7.96**	**$ 6.98**	**$ 8.08**	**$ 7.45**	**$ 6.22**
Income (loss) from investment operations:						
Net investment income[a]	.05	.14	.18	.19	.14	.12
Net realized and unrealized gain (loss)	.33	1.37	1.01	(1.14)	.66	1.51
Total from investment operations	.38	1.51	1.19	(.95)	.80	1.63
Less distributions from:						
Net investment income	(.16)	(.20)	(.21)	(.15)	(.17)	(.40)
Net asset value, end of period	**$ 9.49**	**$ 9.27**	**$ 7.96**	**$ 6.98**	**$ 8.08**	**$ 7.45**
Total Return (%)	4.21[b]**	19.31[b]	17.34	(12.07)	10.93	29.36
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	73	73	67	65	83	86
Ratio of expenses before expense reductions (%)	1.00*	1.06	1.02	1.03	.99	.94
Ratio of expenses after expense reductions (%)	1.00*	.99	1.02	1.03	.99	.94
Ratio of net investment income (%)	1.09*	1.69	2.46	2.44	1.90	1.89
Portfolio turnover rate (%)	39**	139	18	26	14	139

a Based on average shares outstanding during the period.

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

* Annualized

** Not annualized

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

Deutsche Global Equity VIP (formerly DWS Global Equity VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities are generally categorized as Level 1. 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), 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 considered 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.

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.

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, 2014, the Fund had securities on loan. The value of the related collateral 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, 2013, the Fund had a net tax basis capital loss carryforward of approximately $47,342,000 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 ($8,178,000) and December 31, 2017 ($39,164,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2013 through December 31, 2013, the Fund elected to defer qualified late year losses of approximately $36,000 of net long-term realized capital losses and $145,000 of net short-term capital losses and treat them as arising in the fiscal year ending December 31, 2014.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2013 and has determined that no provision for income tax and/or uncertain tax provisions 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 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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

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, 2014, 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.

There are no open futures contracts as of June 30, 2014. For the six months ended June 30, 2014, the investment in futures contracts purchased had a total notional value from $0 to $2,239,000.

The amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2014 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)	$ 91,460

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

(a) Net realized gain (loss) from futures

C. Purchases and Sales of Securities

During the six months ended June 30, 2014, purchases and sales of investment transactions (excluding short-term investments) aggregated $26,830,837 and $29,630,539, 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 $1.5 billion	.650%
Next $1.75 billion	.635%
Next $1.75 billion	.620%
Over $5 billion	.605%

Accordingly, for the six months ended June 30, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate (exclusive of any applicable waivers/reimbursements) of 0.65% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 30, 2014, 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 Class A shares at 1.00%.

For the six months ended June 30, 2014, fees waived and/or expenses reimbursed for Class A amounted to $1,266.

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, 2014, the Administration Fee was $35,752, of which $5,990 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2014, the amounts charged to the Fund by DSC aggregated $56, of which $28 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $7,971, of which $5,256 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 Deutsche 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 Deutsche 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 Deutsche 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 Deutsche Variable NAV Money Fund.

Securities Lending Fees. Deutsche Bank AG serves as lending agent for the Fund. For the six months ended June 30, 2014, the Fund incurred lending agent fees to Deutsche Bank AG in the amount of $2,121.

E. Ownership of the Fund

At June 30, 2014, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 76% and 23%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

G. Fund Name Change

Effective August 11, 2014, the "DWS Funds" were rebranded "Deutsche Funds."

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, 2014 to June 30, 2014).

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, 2014

Actual Fund Return	**Class A**
Beginning Account Value 1/1/14	$1,000.00
Ending Account Value 6/30/14	$1,042.10
Expenses Paid per $1,000*	$ 5.06

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/14	$1,000.00
Ending Account Value 6/30/14	$1,019.84
Expenses Paid per $1,000*	$ 5.01

* 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**
Deutsche Variable Series II — Deutsche Global Equity VIP	1.00%

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

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

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of DWS Global Equity VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2013.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2013, all but one of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Asset Allocation Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent Trustees were also advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG, a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

As part of the contract review process, the Board carefully considered the fees and expenses of each DWS fund overseen by the Board in light of the fund's performance. In many cases, this led to a negotiation with DIMA of lower expense caps as part of the 2012 and 2013 contract review processes than had previously been in place. As part of these negotiations, the Board indicated that it would consider relaxing these new lower caps in future years following sustained improvements in performance, among other considerations.

In June 2012, Deutsche Bank AG ("DB"), DIMA's parent company, announced that DB would combine its Asset Management (of which DIMA was a part) and Wealth Management divisions. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that it has, and will continue to, reinvest a significant portion of the substantial savings it expects to realize by combining its Asset Management and Wealth Management divisions into the new Asset and Wealth Management ("AWM") division, including ongoing enhancements to its investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service.

The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2012, the Fund's performance (Class A shares) was in the 3rd quartile, 2nd quartile and 4th quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one- and three-year periods and has underperformed its benchmark in the five-year period ended December 31, 2012.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2012). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2012, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive.

The information considered by the Board as part of its review of management fees included information regarding fees charged by DIMA and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also

considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DIMA's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and their independent counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Notes

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2GE-3 (R-028380-3 8/14)

Deutsche Asset
& Wealth Management

June 30, 2014

Semiannual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche Global Growth VIP

(formerly DWS Global Growth VIP)

Contents

Letter to Shareholders

Dear Shareholder:

I am very pleased to tell you that the DWS funds have been renamed Deutsche funds, aligning more closely with the Deutsche Asset & Wealth Management brand. We are proud to adopt the Deutsche name — a brand that fully represents the global access, discipline and intelligence that support all of our products and services.

Deutsche Asset & Wealth Management combines the asset management and wealth management divisions of Deutsche Bank to deliver a comprehensive suite of active, passive and alternative investment capabilities. Your investment in the Deutsche funds means you have access to the thought leadership and resources of one of the world's largest and most influential financial institutions.

In conjunction with your fund's name change, please note that the Deutsche funds' Web address has changed as well. The former dws-investments.com is now deutschefunds.com.

In addition, key service providers have been renamed as follows:

Former Name	New name, effective August 11, 2014
DWS Investments Distributors, Inc.	DeAWM Distributors, Inc.
DWS Trust Company	DeAWM Trust Company
DWS Investments Service Company	DeAWM Service Company

These changes have no effect on the day-to-day management of your investment, and there is no action required on your part. You will continue to experience the benefits that come from our decades of experience, in-depth research and worldwide network of investment professionals.

Thanks for your continued support. We appreciate your trust and the opportunity to put our capabilities to work for you.

Best regards,

Brian Binder
President, Deutsche Funds

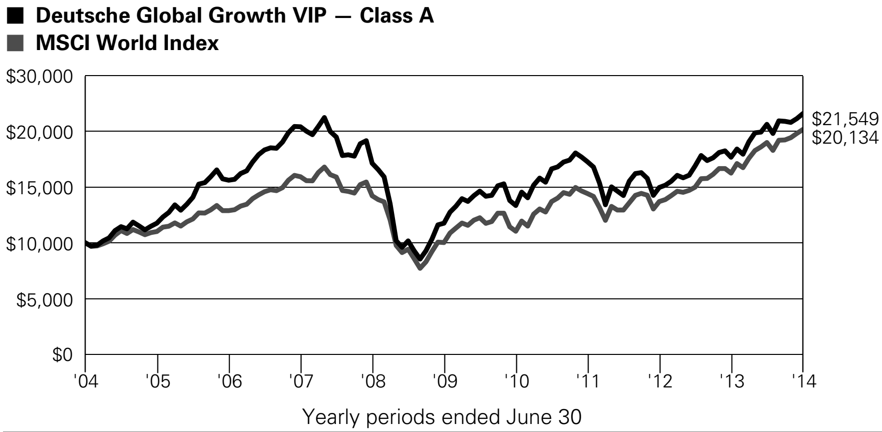
Performance Summary

June 30, 2014 (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, 2014 are 1.45% and 1.81% 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 Deutsche Global Growth VIP



The Morgan Stanley Capital International (MSCI) World Index is an unmanaged index that tracks the performance of stocks in select developed markets around the world, including the U.S.

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

Comparative Results

Deutsche Global Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,465	$12,210	$12,494	$18,351	$21,549
	Average annual total return	4.65%	22.10%	7.71%	12.91%	7.98%
MSCI World Index	Growth of $10,000	$10,618	$12,405	$13,977	$20,103	$20,134
	Average annual total return	6.18%	24.05%	11.81%	14.99%	7.25%

Deutsche Global Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,455	$12,170	$12,380	$18,039	$20,800
	Average annual total return	4.55%	21.70%	7.38%	12.52%	7.60%
MSCI World Index	Growth of $10,000	$10,618	$12,405	$13,977	$20,103	$20,134
	Average annual total return	6.18%	24.05%	11.81%	14.99%	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)	**6/30/14**	**12/31/13**
Common Stocks	96%	96%
Cash Equivalents	3%	3%
Participatory Notes	1%	1%
	100%	100%

Sector Diversification

(As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/14**	**12/31/13**
Industrials	18%	20%
Health Care	14%	14%
Financials	14%	15%
Information Technology	13%	14%
Consumer Discretionary	13%	14%
Consumer Staples	12%	12%
Energy	8%	7%
Materials	8%	4%
	100%	100%

Geographical Diversification

(As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/14**	**12/31/13**
United States	48%	45%
Europe	26%	30%
United Kingdom	11%	9%
Asia (excluding Japan)	6%	6%
Canada	5%	6%
Japan	2%	2%
Latin America	1%	1%
Africa	1%	1%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management Team

Joseph Axtell, CFA
Lead Portfolio Manager

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

	Shares	Value ($)
Common Stocks 96.3%		
Belgium 2.0%		
Anheuser-Busch InBev NV (Cost $877,251)	9,200	**1,056,935**
Bermuda 0.3%		
Lazard Ltd. "A" (Cost $59,462)	2,531	**130,498**
Brazil 0.8%		
CCR SA (Cost $379,260)	49,000	**399,185**
Canada 5.2%		
Brookfield Asset Management, Inc. "A"	19,000	837,065
Canadian Oil Sands Ltd.	20,000	453,212
Canadian Pacific Railway Ltd.	4,500	815,233
Goldcorp, Inc.	12,000	334,920
Quebecor, Inc. "B"	5,040	121,956
SunOpta, Inc.*	11,711	164,891
(Cost $2,333,446)		**2,727,277**
China 0.2%		
Minth Group Ltd. (Cost $115,171)	65,770	**127,969**
Cyprus 0.2%		
Prosafe SE (Cost $124,216)	12,961	**106,919**
Denmark 0.8%		
Coloplast AS "B"	3,200	289,389
GN Store Nord AS	4,730	135,519
(Cost $350,367)		**424,908**
Finland 1.0%		
Cramo Oyj	3,851	93,704
Nokia Oyj (a)	55,000	416,473
(Cost $494,770)		**510,177**
France 1.1%		
Pernod Ricard SA (Cost $567,369)	4,600	**552,403**
Germany 3.4%		
BASF SE	4,100	477,370
Bayer AG (Registered)	2,000	282,487
Fresenius Medical Care AG & Co. KGaA	10,000	672,190
Patrizia Immobilien AG	4,667	61,988
United Internet AG (Registered)	4,323	190,459
Vib Vermoegen AG	4,650	88,186
(Cost $1,604,983)		**1,772,680**
Hong Kong 1.3%		
Hong Kong Television Network Ltd.*	94,719	29,820
K Wah International Holdings Ltd.	244,564	170,713
Playmates Toys Ltd.	226,681	86,280
REXLot Holdings Ltd. (a)	1,447,591	169,966
Sun Hung Kai & Co., Ltd.	101,067	80,458
Techtronic Industries Co.	41,213	132,141
(Cost $563,715)		**669,378**
Indonesia 1.0%		
PT Arwana Citramulia Tbk	1,118,618	95,302
PT Indofood CBP Sukses Makmur Tbk	380,000	320,540
PT Multipolar Tbk	1,697,639	96,660
(Cost $647,416)		**512,502**
Ireland 2.7%		
Accenture PLC "A" (b)	5,500	444,620
C&C Group PLC	12,120	75,428
Paddy Power PLC	1,574	103,453
Ryanair Holdings PLC (ADR)* (a)	2,796	156,017
Shire PLC	7,700	602,225
(Cost $961,550)		**1,381,743**
Italy 1.9%		
Prysmian SpA	4,738	107,048
Sorin SpA*	100,000	293,578
Unipol Gruppo Finanziario SpA	108,000	610,467
(Cost $782,484)		**1,011,093**
Japan 1.5%		
Ai Holdings Corp.	5,242	95,365
Avex Group Holdings, Inc.	5,967	105,139
Kusuri No Aoki Co., Ltd.	3,880	140,562
MISUMI Group, Inc.	2,238	61,570
Nippon Seiki Co., Ltd.	7,919	152,978
United Arrows Ltd.	2,032	81,938
Universal Entertainment Corp.	4,911	87,114
UT Holdings Co., Ltd.	10,080	62,984
(Cost $776,014)		**787,650**
Luxembourg 1.0%		
Eurofins Scientific (a) (Cost $394,249)	1,700	**522,826**
Malaysia 0.8%		
Hartalega Holdings Bhd.	59,558	115,184
IHH Healthcare Bhd.	150,000	204,609
Tune Ins Holdings Bhd.	110,328	77,996
(Cost $381,743)		**397,789**
Netherlands 2.7%		
Brunel International NV	4,058	118,440
Chicago Bridge & Iron Co. NV (b)	1,016	69,291
Constellium NV "A"* (b)	5,856	187,743
ING Groep NV (CVA)*	36,000	505,765
SBM Offshore NV*	7,196	116,123
Yandex NV "A"* (b)	12,000	427,680
(Cost $1,242,047)		**1,425,042**
Norway 1.8%		
DNO ASA*	105,000	403,817
Norsk Hydro ASA	95,000	508,465
(Cost $621,064)		**912,282**
Panama 0.2%		
Banco Latinoamericano de Comercio Exterior SA "E" (Cost $96,167)	4,277	**126,899**
Philippines 1.6%		
Alliance Global Group, Inc.	181,474	120,982
Century Properties Group, Inc.	143,180	4,461
House of Investments, Inc.	6,983	960
Metropolitan Bank & Trust Co.	350,000	700,802
(Cost $880,612)		**827,205**

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

	Shares	Value ($)
Singapore 0.4%		
Lian Beng Group Ltd.	262,007	146,038
UE E&C Ltd.	66,923	63,869
(Cost $160,580)		**209,907**
Spain 0.9%		
Mediaset Espana Communication SA* (Cost $478,060)	41,000	**478,212**
Sweden 4.0%		
Assa Abloy AB "B"	5,000	254,432
Atlas Copco AB "A"	20,000	578,010
Svenska Cellulosa AB "B"	23,000	599,307
Swedish Match AB	18,500	642,366
(Cost $2,021,471)		**2,074,115**
Switzerland 2.7%		
Dufry AG (Registered)*	679	123,427
Nestle SA (Registered)	9,200	712,720
Novartis AG (Registered)	2,700	244,486
Swatch Group AG (Bearer)	500	301,928
(Cost $1,279,311)		**1,382,561**
Taiwan 0.1%		
Kinpo Electronics, Inc. (Cost $58,427)	145,443	**67,953**
Thailand 0.1%		
Malee Sampran PCL (Foreign Registered) (Cost $82,517)	47,499	**65,493**
United Kingdom 9.8%		
Aberdeen Asset Management PLC	54,000	419,474
Anglo American PLC	26,500	648,535
Arrow Global Group PLC*	25,631	100,889
Aveva Group PLC	13,000	453,418
Babcock International Group PLC	8,246	163,984
British American Tobacco PLC	8,500	505,941
Clinigen Healthcare Ltd.	7,944	51,357
Crest Nicholson Holdings PLC	19,578	115,528
Domino's Pizza Group PLC	9,411	84,395
Halma PLC	22,000	221,952
Hargreaves Lansdown PLC	5,254	111,317
HellermannTyton Group PLC	16,957	90,369
Howden Joinery Group PLC	15,355	81,358
IG Group Holdings PLC	8,745	87,927
IMI PLC	14,000	356,279
Intertek Group PLC	9,000	423,418
Jardine Lloyd Thompson Group PLC	4,191	74,594
John Wood Group PLC	7,650	105,589
Monitise PLC*	59,456	52,657
Polypipe Group PLC*	21,583	92,343
Reckitt Benckiser Group PLC	5,000	436,407
Rolls-Royce Holdings PLC*	12,000	219,538
Rotork PLC	2,254	102,995
Spirax-Sarco Engineering PLC	2,518	117,773
(Cost $4,946,668)		**5,118,037**
United States 46.8%		
Advance Auto Parts, Inc.	945	127,499
Affiliated Managers Group, Inc.*	573	117,694
Agilent Technologies, Inc.	5,000	287,200
Alliance Data Systems Corp.* (a)	3,200	900,000
Altra Industrial Motion Corp. (a)	2,692	97,962
Amgen, Inc.	5,000	591,850

	Shares	Value ($)
Amphenol Corp. "A" (a)	9,500	915,230
BE Aerospace, Inc.*	1,162	107,473
Biogen Idec, Inc.*	600	189,186
BorgWarner, Inc.	1,707	111,279
Bristol-Myers Squibb Co.	10,000	485,100
Cardtronics, Inc.* (a)	2,673	91,096
CBRE Group, Inc. "A"*	14,000	448,560
Cerner Corp.* (a)	10,000	515,800
Colfax Corp.* (a)	10,700	797,578
Danaher Corp.	6,700	527,491
DIRECTV*	7,500	637,575
Discovery Communications, Inc. "A"*	7,500	557,100
Dresser-Rand Group, Inc.*	1,442	91,899
Dril-Quip, Inc.*	900	98,316
Eaton Corp. PLC (a)	8,500	656,030
Ecolab, Inc.	5,200	578,968
Encore Capital Group, Inc.* (a)	2,592	117,729
Express Scripts Holding Co.* (a)	10,000	693,300
Exxon Mobil Corp.	6,000	604,080
Fox Factory Holding Corp.* (a)	5,575	98,064
Gentherm, Inc.*	1,298	57,696
Google, Inc. "A"*	400	233,868
Google, Inc. "C"*	400	230,112
Hain Celestial Group, Inc.* (a)	929	82,439
HeartWare International, Inc.* (a)	853	75,490
Jack in the Box, Inc.	1,368	81,861
JPMorgan Chase & Co.	13,000	749,060
Kansas City Southern	3,200	344,032
Kindred Healthcare, Inc.	4,237	97,875
L Brands, Inc.	7,500	439,950
Las Vegas Sands Corp.	9,000	685,980
Manitowoc Co., Inc. (a)	3,394	111,527
MasterCard, Inc. "A"	12,500	918,375
McDonald's Corp.	5,000	503,700
Middleby Corp.* (a)	1,473	121,847
Molina Healthcare, Inc.* (a)	2,183	97,427
Monster Beverage Corp.*	8,000	568,240
National Oilwell Varco, Inc. (a)	5,700	469,395
Noble Energy, Inc. (a)	11,500	890,790
NOW, Inc.*	1,670	60,471
Oaktree Capital Group LLC	2,438	121,876
Oasis Petroleum, Inc.* (a)	1,968	109,992
Ocwen Financial Corp.* (a)	2,829	104,956
Oil States International, Inc.*	980	62,808
Pacira Pharmaceuticals, Inc.* (a)	696	63,935
Pall Corp.	8,100	691,659
Polaris Industries, Inc. (a)	816	106,276
Praxair, Inc. (a)	7,000	929,880
Primoris Services Corp.	1,822	52,546
Providence Service Corp.*	753	27,552
PTC, Inc.*	2,057	79,812
ResMed, Inc. (a)	9,000	455,670
Retrophin, Inc.*	4,363	51,222
Roadrunner Transportation Systems, Inc.* (a)	3,718	104,476
Schlumberger Ltd. (a)	5,500	648,725
Sinclair Broadcast Group, Inc. "A" (a)	3,152	109,532
Synta Pharmaceuticals Corp.*	8,416	34,421
Tenneco, Inc.*	1,972	129,560
The Bancorp., Inc.* (a)	3,261	38,839
The Travelers Companies, Inc. (a)	6,800	639,676
Thermon Group Holdings, Inc.*	3,340	87,909
Thoratec Corp.*	3,300	115,038

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

	Shares	Value ($)
TIBCO Software, Inc.*	3,208	64,705
TiVo, Inc.*	5,065	65,389
TriNet Group, Inc.*	2,617	62,991
Tristate Capital Holdings, Inc.*	6,208	87,719
United Rentals, Inc.*	1,586	166,102
United Technologies Corp.	5,300	611,885
Urban Outfitters, Inc.* (a)	3,108	105,237
VeriFone Systems, Inc.*	3,409	125,281
W.R. Grace & Co.*	2,500	236,325
WABCO Holdings, Inc.*	1,270	135,661
Waddell & Reed Financial, Inc. "A"	2,376	148,714
Western Digital Corp.	2,503	231,027
Yelp, Inc.* (a)	2,700	207,036
Zoe's Kitchen, Inc.*	1,635	56,211
(Cost $20,372,209)		**24,334,837**
Total Common Stocks (Cost $43,652,599)		**50,114,475**

	Shares	Value ($)
Participatory Note 0.4%		
Nigeria		
Zenith Bank PLC (issuer Merrill Lynch International), Expiration Date 8/21/2015 (Cost $195,000)	1,500,000	**230,592**
Securities Lending Collateral 20.3%		
Daily Assets Fund Institutional, 0.08% (c) (d) (Cost $10,578,615)	10,578,615	**10,578,615**
Cash Equivalents 3.5%		
Central Cash Management Fund, 0.06% (c) (Cost $1,796,885)	1,796,885	**1,796,885**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $56,223,099)†	120.5	**62,720,567**
Other Assets and Liabilities, Net	(20.5)	**(10,664,254)**
Net Assets	100.0	**52,056,313**

* Non-income producing security.

† The cost for federal income tax purposes was $56,334,198. At June 30, 2014, net unrealized appreciation for all securities based on tax cost was $6,386,369. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $7,395,225 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,008,856.

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at June 30, 2014 amounted to $10,243,981, which is 19.7% of net assets.

(b) Listed on the New York Stock Exchange.

(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.

ADR: American Depositary Receipt

CVA: Certificaten Van Aandelen (Certificate of Stock)

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2014 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				
Belgium	$ —	$ 1,056,935	$ —	$ 1,056,935
Bermuda	130,498	—	—	130,498
Brazil	399,185	—	—	399,185
Canada	2,727,277	—	—	2,727,277
China	—	127,969	—	127,969
Cyprus	—	106,919	—	106,919
Denmark	—	424,908	—	424,908
Finland	—	510,177	—	510,177
France	—	552,403	—	552,403
Germany	—	1,772,680	—	1,772,680
Hong Kong	—	669,378	—	669,378
Indonesia	—	512,502	—	512,502
Ireland	600,637	781,106	—	1,381,743
Italy	—	1,011,093	—	1,011,093
Japan	—	787,650	—	787,650
Luxembourg	—	522,826	—	522,826
Malaysia	—	397,789	—	397,789
Netherlands	684,714	740,328	—	1,425,042
Norway	—	912,282	—	912,282
Panama	126,899	—	—	126,899
Philippines	—	827,205	—	827,205
Singapore	—	209,907	—	209,907
Spain	—	478,212	—	478,212
Sweden	—	2,074,115	—	2,074,115
Switzerland	—	1,382,561	—	1,382,561
Taiwan	—	67,953	—	67,953
Thailand	—	65,493	—	65,493
United Kingdom	—	5,118,037	—	5,118,037
United States	24,334,837	—	—	24,334,837
Participatory Notes (e)	—	230,592	—	230,592
Short-Term Investments (e)	12,375,500	—	—	12,375,500
Total	**$ 41,379,547**	**$ 21,341,020**	**$ —**	**$ 62,720,567**

There have been no transfers between fair value measurement levels during the period ended June 30, 2014.

(e) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of June 30, 2014 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $43,847,599) — including $10,243,981 of securities loaned	$	50,345,067
Investment in Daily Assets Fund Institutional (cost $10,578,615)*		10,578,615
Investment in Central Cash Management Fund (cost $1,796,885)		1,796,885
Total investments in securities, at value (cost $56,223,099)		62,720,567
Cash		52,217
Foreign currency, at value (cost $340,311)		338,840
Receivable for investments sold		724,431
Receivable for Fund shares sold		8,620
Dividends receivable		51,219
Interest receivable		4,229
Foreign taxes recoverable		36,396
Other assets		766
Total assets		63,937,285
Liabilities		
Payable upon return of securities loaned		10,578,615
Payable for investments purchased		1,051,815
Payable for Fund shares redeemed		166,810
Accrued management fees		13,390
Other accrued expenses and payables		70,342
Total liabilities		11,880,972
Net assets, at value		**52,056,313**
Net Assets Consist of		
Undistributed net investment income		266,782
Net unrealized appreciation (depreciation) on:		
Investments		6,497,468
Foreign currency		(716)
Accumulated net realized gain (loss)		(42,549,845)
Paid-in capital		87,842,624
Net assets, at value		**52,056,313**
Class A		
Net Asset Value, offering and redemption price per share ($51,942,977 ÷ 4,505,150 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.53**
Class B		
Net Asset Value, offering and redemption price per share ($113,336 ÷ 9,801 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.56**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2014 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $46,535)	$	510,230
Income distributions — Central Cash Management Fund		427
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		15,077
Total income		525,734
Expenses:		
Management fee		239,018
Administration fee		26,122
Services to shareholders		735
Record keeping fees (Class B)		817
Distribution service fee (Class B)		2,110
Custodian fee		35,776
Professional fees		37,702
Reports to shareholders		14,521
Trustees' fees and expenses		2,087
Other		15,896
Total expenses before expense reductions		374,784
Expense reductions		(162,853)
Total expenses after expense reductions		211,931
Net investment income (loss)		**313,803**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		1,723,280
Foreign currency		(3,636)
		1,719,644
Change in net unrealized appreciation (depreciation) on:		
Investments		284,834
Foreign currency		1,945
		286,779
Net gain (loss)		**2,006,423**
Net increase (decrease) in net assets resulting from operations	**$**	**2,320,226**

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, 2014 (Unaudited)	Years Ended December 31, 2013
Operations:		
Net investment income (loss)	$ 313,803	$ 518,403
Net realized gain (loss)	1,719,644	9,003,948
Change in net unrealized appreciation (depreciation)	286,779	1,089,980
Net increase (decrease) in net assets resulting from operations	2,320,226	10,612,331
Distributions to shareholders from:		
Net investment income:		
Class A	(509,707)	(689,482)
Class B	(15,999)	(27,740)
Total distributions	(525,706)	(717,222)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,061,203	4,242,450
Reinvestment of distributions	509,707	689,482
Payments for shares redeemed	(3,649,897)	(16,663,817)
Net increase (decrease) in net assets from Class A share transactions	(1,078,987)	(11,731,885)
Class B		
Proceeds from shares sold	26,121	147,425
Reinvestment of distributions	15,999	27,740
Payments for shares redeemed	(2,655,611)	(823,023)
Net increase (decrease) in net assets from Class B share transactions	(2,613,491)	(647,858)
Increase (decrease) in net assets	(1,897,958)	(2,484,634)
Net assets at beginning of period	53,954,271	56,438,905
Net assets at end of period (including undistributed net investment income of $266,782 and $478,685, respectively)	**$ 52,056,313**	**$ 53,954,271**

Other Information		
Class A		
Shares outstanding at beginning of period	4,601,327	5,793,732
Shares sold	184,507	422,826
Shares issued to shareholders in reinvestment of distributions	46,464	71,746
Shares redeemed	(327,148)	(1,686,977)
Net increase (decrease) in Class A shares	(96,177)	(1,192,405)
Shares outstanding at end of period	**4,505,150**	**4,601,327**
Class B		
Shares outstanding at beginning of period	246,555	311,300
Shares sold	2,394	14,554
Shares issued to shareholders in reinvestment of distributions	1,453	2,878
Shares redeemed	(240,601)	(82,177)
Net increase (decrease) in Class B shares	(236,754)	(64,745)
Shares outstanding at end of period	**9,801**	**246,555**

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

Financial Highlights

Class A	Six Months Ended 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$11.13**	**$ 9.24**	**$ 7.90**	**$ 9.28**	**$ 8.24**	**$ 5.84**
Income (loss) from investment operations:						
Net investment income[a]	.07	.10	.12	.11	.06	.08
Net realized and unrealized gain (loss)	.44	1.92	1.34	(1.43)	1.06	2.42
Total from investment operations	.51	2.02	1.46	(1.32)	1.12	2.50
Less distributions from:						
Net investment income	(.11)	(.13)	(.12)	(.06)	(.08)	(.10)
Total distributions	(.11)	(.13)	(.12)	(.06)	(.08)	(.10)
Net asset value, end of period	**$11.53**	**$11.13**	**$ 9.24**	**$ 7.90**	**$ 9.28**	**$ 8.24**
Total Return (%)[b]	4.65**	22.08	18.60	(14.39)	13.65	43.82
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	52	51	54	49	68	66
Ratio of expenses before expense reductions (%)	1.42*	1.45	1.42	1.37	1.41	1.38
Ratio of expenses after expense reductions (%)	.80*	.88	.99	1.03	1.05	1.04
Ratio of net investment income (%)	1.24*	1.00	1.40	1.24	.77	1.23
Portfolio turnover rate (%)	31**	171	107	127	165	190

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 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$11.14**	**$ 9.25**	**$ 7.91**	**$ 9.29**	**$ 8.25**	**$ 5.85**
Income (loss) from investment operations:						
Net investment income[a]	.01	.07	.09	.08	.04	.06
Net realized and unrealized gain (loss)	.48	1.92	1.34	(1.44)	1.05	2.42
Total from investment operations	.49	1.99	1.43	(1.36)	1.09	2.48
Less distributions from:						
Net investment income	(.07)	(.10)	(.09)	(.02)	(.05)	(.08)
Total distributions	(.07)	(.10)	(.09)	(.02)	(.05)	(.08)
Net asset value, end of period	**$11.56**	**$11.14**	**$ 9.25**	**$ 7.91**	**$ 9.29**	**$ 8.25**
Total Return (%)[b]	4.55**	21.62	18.16	(14.67)	13.24	43.23
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	.1	3	3	3	5	5
Ratio of expenses before expense reductions (%)	1.77*	1.81	1.76	1.72	1.76	1.73
Ratio of expenses after expense reductions (%)	1.15*	1.23	1.34	1.38	1.40	1.39
Ratio of net investment income (%)	.16*	.66	1.04	.88	.42	.88
Portfolio turnover rate (%)	31**	171	107	127	165	190

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

Deutsche Global Growth VIP (formerly DWS Global Growth VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities are generally categorized as Level 1. 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 considered 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, 2014, the Fund had securities on loan. The value of the related collateral 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, 2013, the Fund had a net tax basis capital loss carryforward of approximately $44,211,000 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 ($26,421,000) and December 31, 2017 ($17,790,000), the respective expiration dates, whichever occurs first.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2013 and has determined that no provision for income tax and/or uncertain tax provisions 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. Realized gains and losses from investment transactions are recorded on an identified cost basis. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

B. Purchases and Sales of Securities

During the six months ended June 30, 2014, purchases and sales of investment transactions (excluding short-term investments) aggregated $15,780,080 and $19,619,448, 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	.915%
Next $500 million	.865%
Next $750 million	.815%
Next $1.5 billion	.765%
Over $3 billion	.715%

Accordingly, for the six months ended June 30, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate (exclusive of any applicable waivers/reimbursements) of 0.915% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 30, 2014, 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	.80%
Class B	1.15%

For the six months ended June 30, 2014, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 157,586
Class B	5,267
	$ 162,853

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, 2014, the Administration Fee was $26,122, of which $4,256 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2014, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2014
Class A	$ 149	$ 73
Class B	43	27
	$ 192	**$ 100**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plan, DeAWM Distributors, Inc. ("DDI") 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, 2014, the Distribution Service Fee aggregated $2,110, of which $23 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $8,718, of which $1,442 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 Deutsche 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 Deutsche 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 Deutsche 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 Deutsche 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, 2014, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 72% and 23%. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, owning 53% and 39%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

G. Fund Name Change

Effective August 11, 2014, the "DWS Funds" were rebranded "Deutsche Funds."

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, 2014 to June 30, 2014).

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, 2014

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,046.50	$1,045.50
Expenses Paid per $1,000*	$ 4.06	$ 5.83
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,020.83	$1,019.09
Expenses Paid per $1,000*	$ 4.01	$ 5.76

* 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**
Deutsche Variable Series II — Deutsche Global Growth VIP	.80%	1.15%

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 the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of DWS Global Growth VIP's investment management agreement (the “Agreement”) with Deutsche Investment Management Americas Inc. (“DIMA”) in September 2013.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2013, all but one of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the “Fee Consultant”). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent Trustees were also advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG, a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

As part of the contract review process, the Board carefully considered the fees and expenses of each DWS fund overseen by the Board in light of the fund's performance. In many cases, this led to a negotiation with DIMA of lower expense caps as part of the 2012 and 2013 contract review processes than had previously been in place. As part of these negotiations, the Board indicated that it would consider relaxing these new lower caps in future years following sustained improvements in performance, among other considerations.

In June 2012, Deutsche Bank AG (“DB”), DIMA's parent company, announced that DB would combine its Asset Management (of which DIMA was a part) and Wealth Management divisions. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that it has, and will continue to, reinvest a significant portion of the substantial savings it expects to realize by combining its Asset Management and Wealth Management divisions into the new Asset and Wealth Management (“AWM”) division, including ongoing enhancements to its investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct (“Morningstar”), an independent fund data service.

The Board also noted that it has put into place a process of identifying “Focus Funds” (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2012, the Fund's performance (Class A shares) was in the 3rd quartile, 4th quartile and 4th quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one-year period and has underperformed its benchmark in the three- and five-year periods ended December 31, 2012. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board recognized that DIMA has made changes to its investment personnel and processes in recent years in an effort to enhance its investment platform and improve long-term performance across the DWS fund complex.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. (“Lipper”) and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were higher than the median (4th quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2012). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be lower than the median (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2012, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) (“Lipper Universe Expenses”). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive.

The information considered by the Board as part of its review of management fees included information regarding fees charged by DIMA and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors (“DWS Europe funds”), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds (“DWS Funds”), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule

represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DIMA's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and their independent counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Notes

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2GG-3 (R-028383-3 8/14)

Deutsche Asset
& Wealth Management

June 30, 2014

Semiannual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche Global Income Builder VIP

(formerly DWS Global Income Builder 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.

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. Preferred stocks, a type of dividend-paying stock, present certain additional risks. 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.

Letter to Shareholders

Dear Shareholder:

I am very pleased to tell you that the DWS funds have been renamed Deutsche funds, aligning more closely with the Deutsche Asset & Wealth Management brand. We are proud to adopt the Deutsche name — a brand that fully represents the global access, discipline and intelligence that support all of our products and services.

Deutsche Asset & Wealth Management combines the asset management and wealth management divisions of Deutsche Bank to deliver a comprehensive suite of active, passive and alternative investment capabilities. Your investment in the Deutsche funds means you have access to the thought leadership and resources of one of the world's largest and most influential financial institutions.

In conjunction with your fund's name change, please note that the Deutsche funds' Web address has changed as well. The former dws-investments.com is now deutschefunds.com.

In addition, key service providers have been renamed as follows:

Former Name	New name, effective August 11, 2014
DWS Investments Distributors, Inc.	DeAWM Distributors, Inc.
DWS Trust Company	DeAWM Trust Company
DWS Investments Service Company	DeAWM Service Company

These changes have no effect on the day-to-day management of your investment, and there is no action required on your part. You will continue to experience the benefits that come from our decades of experience, in-depth research and worldwide network of investment professionals.

Thanks for your continued support. We appreciate your trust and the opportunity to put our capabilities to work for you.

Best regards,

Brian Binder
President, Deutsche Funds

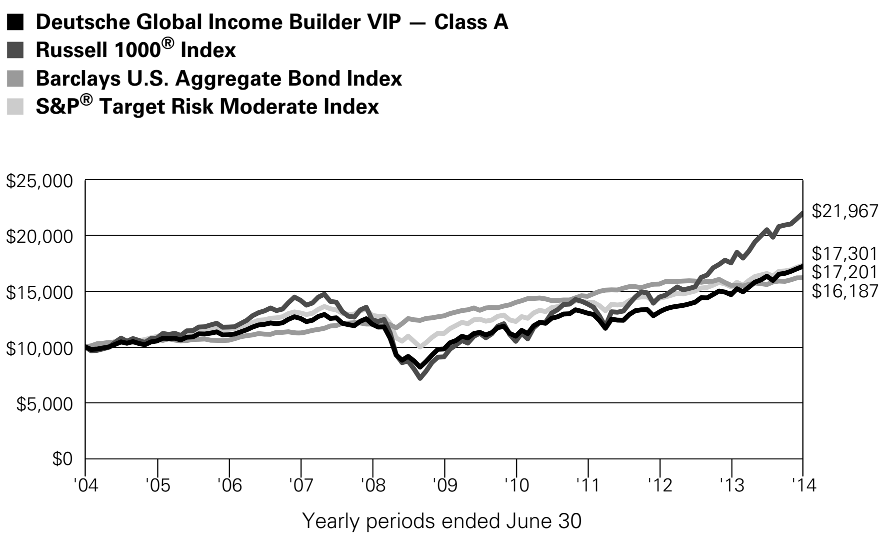
Performance Summary

June 30, 2014 (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, 2014 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 Deutsche 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

Deutsche Global Income Builder VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,539	$11,724	$13,210	$17,532	$17,201
	Average annual total return	5.39%	17.24%	9.73%	11.88%	5.57%
Russell 1000® Index	Growth of $10,000	$10,727	$12,535	$15,863	$24,117	$21,967
	Average annual total return	7.27%	25.35%	16.63%	19.25%	8.19%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$10,393	$10,437	$11,140	$12,674	$16,187
	Average annual total return	3.93%	4.37%	3.66%	4.85%	4.93%
S&P® Target Risk Moderate Index	Growth of $10,000	$10,442	$11,254	$12,367	$15,443	$17,301
	Average annual total return	4.42%	12.54%	7.34%	9.08%	5.64%

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)	**6/30/14**	**12/31/13**
Equity	**55%**	**63%**
Common Stocks	55%	63%
Fixed Income	**37%**	**33%**
Corporate Bonds	27%	23%
Government & Agency Obligations	7%	5%
Collateralized Mortgage Obligations	1%	2%
Asset-Backed	1%	0%
Commercial Mortgage-Backed Securities	1%	1%
Municipal Bonds and Notes	0%	1%
Mortgage-Backed Securities Pass-Throughs	0%	1%
Loan Participations and Assignments	—	0%
Cash Equivalents	**8%**	**4%**
	100%	100%

Sector Diversification (As a % of Equities, Corporate Bonds, Preferred Securities, Convertible Bonds and Other Investments)	**6/30/14**	**12/31/13**
Financials	21%	22%
Consumer Discretionary	12%	13%
Energy	12%	9%
Information Technology	10%	12%
Industrials	10%	11%
Telecommunication Services	10%	9%
Consumer Staples	7%	7%
Health Care	7%	6%
Materials	6%	5%
Utilities	5%	6%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management Team

Di Kumble, CFA
William Chepolis, CFA
Philip G. Condon
Gary Russell, CFA
John D. Ryan
Darwei Kung
Portfolio Managers

	Shares	Value ($)
Common Stocks 54.8%		
Consumer Discretionary 5.4%		
Auto Components 0.4%		
Aisin Seiki Co., Ltd.	2,664	105,976
Bridgestone Corp.	3,605	126,151
Cie Generale des Etablissements Michelin	243	29,035
Delphi Automotive PLC	1,254	86,200
Denso Corp.	79	3,770
Johnson Controls, Inc.	1,959	97,813
Magna International, Inc.	1,176	126,588
Sumitomo Rubber Industries Ltd.	12,693	183,181
Toyota Industries Corp.	79	4,078
TRW Automotive Holdings Corp.*	236	21,127
Yokohama Rubber Co., Ltd.	23,087	199,637
		983,556
Automobiles 1.3%		
Bayerische Motoren Werke (BMW) AG	1,177	149,273
Daimler AG (Registered)	1,727	161,751
Fiat SpA*	11,828	116,774
Ford Motor Co.	13,868	239,084
Fuji Heavy Industries Ltd.	4,153	114,991
General Motors Co.	16,140	585,882
Honda Motor Co., Ltd. (a)	5,250	183,300
Isuzu Motors Ltd.	7,052	46,640
Mitsubishi Motors Corp.	21,938	242,107
Nissan Motor Co., Ltd.	40,585	384,998
Renault SA	4,500	406,867
Toyota Motor Corp.	6,190	371,748
Volkswagen AG	1,470	380,030
		3,383,445
Diversified Consumer Services 0.0%		
H&R Block, Inc.	3,134	**105,052**
Hotels, Restaurants & Leisure 0.7%		
Carnival Corp.	4,858	182,904
Chipotle Mexican Grill, Inc.*	79	46,808
Compass Group PLC	9,203	160,178
Crown Resorts Ltd.	4,907	69,961
Dawn Holdings, Inc.* (b)	1	1,940
Galaxy Entertainment Group Ltd.	10,969	87,464
McDonald's Corp.	3,056	307,861
Royal Caribbean Cruises Ltd.	2,899	161,184
Sands China Ltd.	26,326	199,558
SJM Holdings Ltd.	26,583	66,471
Starbucks Corp.	2,821	218,289
Tatts Group Ltd.	27,230	83,962
Trump Entertainment Resorts, Inc.*	2	0
TUI Travel PLC	10,382	70,716
Whitbread PLC	134	10,111
Yum! Brands, Inc.	1,959	159,071
		1,826,478
Household Durables 0.3%		
Leggett & Platt, Inc. (a)	3,448	118,197
Mohawk Industries, Inc.*	784	108,459
Newell Rubbermaid, Inc.	2,351	72,858
PulteGroup, Inc.	2,351	47,396
Sekisui Chemical Co., Ltd.	5,485	63,510
Sekisui House Ltd.	13,454	184,469
Whirlpool Corp.	1,646	229,156
		824,045
Leisure Products 0.1%		
Bandai Namco Holdings, Inc.	2,508	58,723
Hasbro, Inc. (a)	2,821	149,654
Mattel, Inc.	784	30,553
		238,930
Media 1.6%		
British Sky Broadcasting Group PLC	10,533	162,957
CBS Corp. "B" (a)	1,176	73,077
Comcast Corp. Special "A"	7,914	422,054
Comcast Corp. "A"	6,974	374,364
DIRECTV*	4,545	386,370
Discovery Communications, Inc. "A"*	314	23,324
Discovery Communications, Inc. "C"*	1,019	73,969
Liberty Global PLC "A"*	2,978	131,687
Liberty Global PLC "C"*	3,420	144,700
Liberty Media Corp. "A"*	1,411	192,856
News Corp. "A"*	5,485	98,401
Omnicom Group, Inc.	627	44,655
Reed Elsevier PLC	4,714	75,835
Scripps Networks Interactive, Inc. "A"	2,273	184,431
SES SA	5	190
Shaw Communications, Inc. "B"	7,444	190,870
Thomson Reuters Corp.	4,231	154,046
Time Warner Cable, Inc.	1,254	184,714
Time Warner, Inc.	6,347	445,877
Time, Inc.*	793	19,206
Twenty-First Century Fox, Inc. "A"	3,056	107,418
Twenty-First Century Fox, Inc. "B"	4,701	160,915
Viacom, Inc. "B"	1,881	163,139
Walt Disney Co.	3,683	315,780
WPP PLC	4,538	98,943
		4,229,778
Multiline Retail 0.3%		
Canadian Tire Corp., Ltd. "A"	157	15,062
Dollar General Corp.*	1,959	112,368
Kohl's Corp.	3,291	173,370
Macy's, Inc.	2,194	127,296
Nordstrom, Inc.	1,097	74,519
Target Corp. (a)	3,683	213,430
		716,045
Specialty Retail 0.3%		
AutoZone, Inc.*	314	168,379
Bed Bath & Beyond, Inc.*	941	53,995
GameStop Corp. "A" (a)	392	15,864
Home Depot, Inc.	2,038	164,997
Lowe's Companies, Inc.	1,332	63,923
O'Reilly Automotive, Inc.*	314	47,288
PetSmart, Inc. (a)	1,097	65,601
Staples, Inc.	8,500	92,140
The Gap, Inc.	862	35,833
TJX Companies, Inc.	1,567	83,286
		791,306

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

	Shares	Value ($)
Textiles, Apparel & Luxury Goods 0.4%		
Christian Dior SA	933	185,629
Cie Financiere Richemont SA (Registered)	1,534	160,959
Michael Kors Holdings Ltd.*	706	62,587
NIKE, Inc. "B"	2,664	206,593
Swatch Group AG (Bearer)	205	123,791
Swatch Group AG (Registered)	1,724	191,491
VF Corp.	2,642	166,446
Yue Yuen Industrial (Holdings) Ltd.	18,804	63,688
		1,161,184
Consumer Staples 4.7%		
Beverages 0.6%		
Anheuser-Busch InBev NV	450	51,698
Carlsberg AS "B"	1,729	186,242
Coca-Cola Co.	6,268	265,512
Diageo PLC	2,821	90,088
Dr. Pepper Snapple Group, Inc.	2,586	151,488
Heineken Holding NV	1,747	114,860
Heineken NV	355	25,486
Molson Coors Brewing Co. "B"	2,899	214,990
PepsiCo, Inc.	3,567	318,676
SABMiller PLC	1,353	78,450
		1,497,490
Food & Staples Retailing 1.7%		
Aeon Co., Ltd.	12,615	155,158
Alimentation Couche-Tard, Inc. "B"	7,052	193,177
Casino Guichard-Perrachon SA	524	69,477
Costco Wholesale Corp.	1,332	153,393
CVS Caremark Corp.	5,642	425,238
Empire Co., Ltd. "A"	3,134	213,114
George Weston Ltd.	3,448	254,339
J Sainsbury PLC	65,372	352,974
Jeronimo Martins, SGPS, SA	3,507	57,698
Koninklijke Ahold NV	4,417	82,921
Kroger Co.	5,877	290,500
Lawson, Inc.	862	64,668
Loblaw Companies Ltd.	1,756	78,366
Metro, Inc.	1,332	82,350
Safeway, Inc.	2,899	99,552
Seven & I Holdings Co., Ltd.	1,567	66,018
Sysco Corp. (a)	3,761	140,849
Tesco PLC	70,901	344,848
Wal-Mart Stores, Inc.	6,112	458,828
Walgreen Co.	4,545	336,921
Wesfarmers Ltd.	5,098	201,131
WM Morrison Supermarkets PLC	77,061	241,872
Woolworths Ltd.	4,247	141,046
		4,504,438
Food Products 1.2%		
Archer-Daniels-Midland Co.	5,328	235,018
Aryzta AG*	1,318	124,845
Bunge Ltd.	3,996	302,258
ConAgra Foods, Inc.	4,466	132,551
General Mills, Inc.	4,780	251,141
Hormel Foods Corp.	2,038	100,575
Kellogg Co.	2,899	190,464
Kerry Group PLC "A"	2,837	213,076
Kraft Foods Group, Inc.	2,116	126,854
Lindt & Spruengli AG	23	117,075
McCormick & Co., Inc.	941	67,366
Mondelez International, Inc. "A"	7,679	288,807
Nestle SA (Registered)	4,850	375,728
Tate & Lyle PLC	6,434	75,371
The Hershey Co.	706	68,743
The JM Smucker Co.	1,567	166,995
Tyson Foods, Inc. "A"	7,052	264,732
Wilmar International Ltd.	61,112	156,346
		3,257,945
Household Products 0.5%		
Church & Dwight Co., Inc.	1,803	126,120
Clorox Co.	784	71,658
Colgate-Palmolive Co.	2,429	165,609
Energizer Holdings, Inc.	1,411	172,184
Kimberly-Clark Corp.	2,038	226,666
Procter & Gamble Co.	4,566	358,842
Reckitt Benckiser Group PLC	1,733	151,259
		1,272,338
Tobacco 0.7%		
Altria Group, Inc.	8,110	340,133
British American Tobacco PLC	4,589	273,149
Imperial Tobacco Group PLC	7,662	344,865
Japan Tobacco, Inc.	5,877	214,242
Lorillard, Inc.	3,134	191,080
Philip Morris International, Inc.	3,918	330,326
Reynolds American, Inc.	4,623	278,998
		1,972,793
Energy 5.0%		
Energy Equipment & Services 0.5%		
Baker Hughes, Inc.	1,254	93,360
Ensco PLC "A"	8,070	448,450
Halliburton Co.	1,254	89,047
National Oilwell Varco, Inc.	1,254	103,267
Noble Corp. PLC	10,969	368,120
Schlumberger Ltd.	2,273	268,100
		1,370,344
Oil, Gas & Consumable Fuels 4.5%		
Apache Corp.	1,567	157,672
BG Group PLC	6,894	145,710
BP PLC	76,166	671,175
Cabot Oil & Gas Corp.	3,996	136,423
Canadian Natural Resources Ltd.	1,646	75,632
Chesapeake Energy Corp. (a)	11,155	346,697
Chevron Corp.	4,780	624,029
ConocoPhillips	6,336	543,185
Devon Energy Corp.	2,038	161,817
Enbridge, Inc.	392	18,600
Eni SpA	9,313	254,791
EQT Corp.	1,332	142,391
Exxon Mobil Corp.	4,701	473,297
Hess Corp.	3,134	309,921
HollyFrontier Corp. (a)	5,789	252,921
Husky Energy, Inc.	6,056	195,576
Idemitsu Kosan Co., Ltd.	12,627	274,340
Imperial Oil Ltd.	6,974	367,507
JX Holdings, Inc.	90,885	486,251
Kinder Morgan, Inc.	7,835	284,097
Marathon Oil Corp.	6,503	259,600
Marathon Petroleum Corp.	3,621	282,692
Murphy Oil Corp.	2,806	186,543
Neste Oil Oyj (a)	9,505	185,467
Occidental Petroleum Corp.	3,369	345,761
OMV AG	9,145	413,234
Origin Energy Ltd.	152	2,095

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

	Shares	Value ($)
Pacific Rubiales Energy Corp.	4,623	93,929
Phillips 66	4,075	327,752
Repsol SA	5,901	155,625
Royal Dutch Shell PLC "A"	18,660	772,341
Royal Dutch Shell PLC "B"	14,953	650,640
Showa Shell Sekiyu KK	28,239	320,844
Spectra Energy Corp. (a)	3,448	146,471
Statoil ASA	6,006	184,473
Suncor Energy, Inc.	4,780	203,824
Tesoro Corp.	5,015	294,230
TonenGeneral Sekiyu KK (a)	16,463	156,334
Total SA	7,515	543,122
TransCanada Corp.	2,273	108,490
Valero Energy Corp.	6,863	343,836
Woodside Petroleum Ltd.	2,606	100,922
		12,000,257
Financials 13.6%		
Banks 6.3%		
Aozora Bank Ltd.	141,174	464,053
Australia & New Zealand Banking Group Ltd.	8,236	258,923
Banco Bilbao Vizcaya Argentaria SA	9,682	123,415
Bank Hapoalim BM	63,913	369,528
Bank Leumi Le-Israel BM*	98,723	385,225
Bank of America Corp.	31,653	486,507
Bank of East Asia Ltd.	21,938	91,003
Bank of Montreal (a)	5,328	392,366
Bank of Nova Scotia (a)	5,646	376,418
Barclays PLC	83,709	304,856
BB&T Corp.	6,190	244,072
Bendigo & Adelaide Bank Ltd.	5,567	64,043
BNP Paribas SA	4,637	314,583
BOC Hong Kong (Holdings) Ltd.	93,627	271,202
Canadian Imperial Bank of Commerce (a)	4,075	370,819
CIT Group, Inc.	6,582	301,192
Citigroup, Inc.	11,048	520,361
Comerica, Inc.	1,097	55,025
Commonwealth Bank of Australia	2,037	155,353
Credit Agricole SA	14,547	205,168
Danske Bank AS	11,160	315,440
DBS Group Holdings Ltd.	20,371	273,650
Fifth Third Bancorp.	14,103	301,099
First Republic Bank	1,332	73,247
Fukuoka Financial Group, Inc.	21,710	104,794
Hang Seng Bank Ltd.	16,924	277,103
HSBC Holdings PLC	66,333	673,074
JPMorgan Chase & Co.	9,167	528,202
KeyCorp	12,301	176,273
Lloyds Banking Group PLC*	166,742	211,881
M&T Bank Corp. (a)	1,959	243,014
Mitsubishi UFJ Financial Group, Inc.	36,354	222,850
Mizrahi Tefahot Bank Ltd.	15,580	201,498
Mizuho Financial Group, Inc.	162,573	333,796
National Australia Bank Ltd.	6,869	212,320
National Bank of Canada (a)	8,305	352,265
Natixis	31,878	204,372
Nordea Bank AB	21,868	308,634
Oversea-Chinese Banking Corp., Ltd.	25,855	198,023
PNC Financial Services Group, Inc.	4,780	425,659
Raiffeisen Bank International AG	2,759	88,082
Regions Financial Corp.	31,810	337,822
Resona Holdings, Inc.	47,156	274,636
Royal Bank of Canada	4,858	347,283
Royal Bank of Scotland Group PLC*	10,278	57,765
Skandinaviska Enskilda Banken AB "A"	23,014	307,586
Societe Generale	6,354	332,839
Standard Chartered PLC	11,679	238,650
Sumitomo Mitsui Financial Group, Inc.	5,407	226,517
SunTrust Banks, Inc.	5,877	235,433
Svenska Handelsbanken AB "A"	1,488	72,846
Swedbank AB "A"	13,741	364,422
The Bank of Yokohama Ltd.	27,744	159,664
The Chiba Bank Ltd.	10,186	71,892
The Chugoku Bank Ltd.	7,600	116,883
The Gunma Bank Ltd.	14,167	83,767
The Hachijuni Bank Ltd.	18,804	116,382
The Iyo Bank Ltd.	6,738	68,108
The Toronto-Dominion Bank (a)	8,229	423,616
U.S. Bancorp.	8,070	349,592
United Overseas Bank Ltd.	9,402	169,808
Wells Fargo & Co.	10,969	576,531
Westpac Banking Corp.	6,452	206,123
Yamaguchi Financial Group, Inc.	18,021	189,985
		16,807,538
Capital Markets 0.5%		
3i Group PLC	33,208	228,409
Ameriprise Financial, Inc.	627	75,240
Bank of New York Mellon Corp.	3,369	126,270
BlackRock, Inc.	314	100,354
Credit Suisse Group AG (Registered)*	6,854	196,005
Morgan Stanley	8,070	260,903
State Street Corp.	1,724	115,956
The Goldman Sachs Group, Inc.	1,097	183,682
UBS AG (Registered)*	913	16,751
		1,303,570
Consumer Finance 0.2%		
American Express Co.	549	52,084
Capital One Financial Corp.	3,526	291,247
Discover Financial Services	1,959	121,419
		464,750
Diversified Financial Services 0.5%		
Berkshire Hathaway, Inc. "B"*	3,134	396,639
CME Group, Inc.	2,038	144,596
EXOR SpA	1,762	72,357
ING Groep NV (CVA)*	3,416	47,992
Intercontinental Exchange, Inc.	314	59,315
Investor AB "B"	6,167	231,393
Leucadia National Corp.	627	16,440
The NASDAQ OMX Group, Inc.	1,176	45,417
Voya Financial, Inc.	4,800	174,432
		1,188,581
Insurance 5.0%		
ACE Ltd.	3,526	365,646
Aegon NV	25,449	222,117
Aflac, Inc.	4,578	284,980
Alleghany Corp.*	471	206,355
Allianz SE (Registered)	1,307	217,803
Allstate Corp.	6,582	386,495
American International Group, Inc.	7,444	406,294
Aon PLC	471	42,432

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

	Shares	Value ($)
Arch Capital Group Ltd.*	2,586	148,540
Assurant, Inc.	3,134	205,434
AXA SA	10,958	261,909
Axis Capital Holdings Ltd.	7,914	350,432
Baloise Holding AG (Registered)	3,543	417,505
Chubb Corp.	3,213	296,142
CNP Assurances	6,858	142,362
Delta Lloyd NV	4,442	112,768
Direct Line Insurance Group PLC	87,683	404,864
Everest Re Group Ltd.	3,369	540,691
Friends Life Group Ltd.	61,783	333,384
Great-West Lifeco, Inc.	4,466	126,314
Hannover Rueck SE	3,802	342,612
Hartford Financial Services Group, Inc.	6,626	237,277
Insurance Australia Group Ltd.	2,518	13,866
Intact Financial Corp.	3,134	216,110
Legal & General Group PLC	1,991	7,680
Lincoln National Corp.	4,351	223,815
Loews Corp.	5,877	258,647
Manulife Financial Corp.	4,100	81,497
Mapfre SA	24,168	96,334
Marsh & McLennan Companies, Inc.	1,097	56,847
MetLife, Inc.	6,836	379,808
Muenchener Rueckversicherungs-Gesellschaft AG (Registered)	1,302	288,640
Old Mutual PLC	66,684	225,621
PartnerRe Ltd.	3,706	404,732
Power Corp. of Canada	2,429	67,494
Power Financial Corp.	4,075	126,827
Principal Financial Group, Inc.	1,097	55,377
Progressive Corp.	4,936	125,177
Prudential Financial, Inc.	2,351	208,698
RenaissanceRe Holdings Ltd. (a)	3,526	377,282
Sampo Oyj "A"	3,489	176,528
SCOR SE	8,888	305,719
Suncorp Group Ltd.	22,938	292,862
Swiss Life Holding AG (Registered)*	2,090	495,633
Swiss Re AG.*	7,110	632,588
The Travelers Companies, Inc.	3,918	368,566
Torchmark Corp.	1,881	154,092
Unum Group	7,757	269,633
W.R. Berkley Corp.	5,015	232,245
XL Group PLC	11,204	366,707
Zurich Insurance Group AG*	2,086	628,764
		13,190,145
Real Estate Investment Trusts 0.4%		
CFS Retail Property Trust (REIT)	49,808	95,812
Crown Castle International Corp. (REIT)	1,091	81,018
Dexus Property Group (REIT)	77,801	81,432
Federation Centres Ltd. (REIT)	44,060	103,450
GPT Group (REIT)	19,958	72,266
H&R Real Estate Investment Trust (REIT) (Units)	14,386	312,244
RioCan Real Estate Investment Trust (REIT)	4,858	124,335
Scentre Group (REIT)*	47,536	143,437
Stockland (REIT)	26,778	97,971
Westfield Corp. (REIT)	3,020	20,361
		1,132,326

	Shares	Value ($)
Real Estate Management & Development 0.5%		
Cheung Kong (Holdings) Ltd.	15,670	277,800
First Capital Realty, Inc.	6,425	112,116
Henderson Land Development Co., Ltd.	14,774	86,543
New World Development Co., Ltd.	47,793	54,389
Sun Hung Kai Properties Ltd.	12,536	172,098
Swire Pacific Ltd. "A"	13,320	163,870
Swiss Prime Site AG (Registered)*	3,231	267,793
Wharf Holdings Ltd.	7,835	56,611
Wheelock & Co., Ltd.	14,103	59,320
		1,250,540
Thrifts & Mortgage Finance 0.2%		
New York Community Bancorp., Inc. (a)	10,499	167,774
Ocwen Financial Corp.*	5,935	220,189
People's United Financial, Inc.	14,025	212,759
		600,722

Health Care 4.2%

	Shares	Value ($)
Biotechnology 1.0%		
Actelion Ltd. (Registered)*	2,771	350,593
Alexion Pharmaceuticals, Inc.*	941	147,031
Amgen, Inc.	3,683	435,957
Biogen Idec, Inc.*	627	197,699
Celgene Corp.*	5,642	484,535
CSL Ltd.	4,391	275,550
Gilead Sciences, Inc.*	7,914	656,150
		2,547,515
Health Care Equipment & Supplies 0.4%		
Abbott Laboratories	5,642	230,758
Baxter International, Inc.	2,664	192,607
Becton, Dickinson & Co.	862	101,975
CareFusion Corp.*	2,116	93,845
Covidien PLC	2,273	204,979
Medtronic, Inc.	3,683	234,828
Stryker Corp.	1,190	100,341
Zimmer Holdings, Inc.	549	57,019
		1,216,352
Health Care Providers & Services 1.1%		
Aetna, Inc.	3,918	317,672
AmerisourceBergen Corp.	1,411	102,523
Cardinal Health, Inc.	1,959	134,309
CIGNA Corp.	2,508	230,661
Express Scripts Holding Co.*	3,134	217,280
HCA Holdings, Inc.*	3,213	181,149
Humana, Inc.	2,194	280,218
Laboratory Corp. of America Holdings*	862	88,269
McKesson Corp.	1,019	189,748
Omnicare, Inc. (a)	941	62,642
Quest Diagnostics, Inc. (a)	4,231	248,317
UnitedHealth Group, Inc.	4,701	384,307
WellPoint, Inc.	4,153	446,904
		2,883,999
Life Sciences Tools & Services 0.1%		
Thermo Fisher Scientific, Inc.	2,038	**240,484**
Pharmaceuticals 1.6%		
AbbVie, Inc.	2,741	154,702
Actavis PLC* (a)	1,019	227,288
AstraZeneca PLC	1,718	127,619
Bristol-Myers Squibb Co.	3,369	163,430
Eli Lilly & Co.	3,213	199,752

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

	Shares	Value ($)
GlaxoSmithKline PLC	11,399	305,109
Johnson & Johnson	3,605	377,155
Merck & Co., Inc.	5,563	321,819
Mylan, Inc.*	1,176	60,635
Novartis AG (Registered)	5,595	506,629
Novo Nordisk AS ''B"	3,854	177,381
Otsuka Holdings Co., Ltd.	6,895	213,714
Perrigo Co. PLC	392	57,138
Pfizer, Inc.	13,555	402,312
Roche Holding AG (Genusschein)	1,112	331,669
Sanofi	1,531	162,639
Teva Pharmaceutical Industries Ltd.	7,856	415,293
		4,204,284
Industrials 5.9%		
Aerospace & Defense 1.1%		
Airbus Group NV	2,936	196,752
BAE Systems PLC	42,925	318,016
Boeing Co.	1,489	189,445
General Dynamics Corp.	1,567	182,634
Honeywell International, Inc.	2,821	262,212
L-3 Communications Holdings, Inc.	1,881	227,131
Lockheed Martin Corp.	1,567	251,864
Meggitt PLC	8,369	72,473
Northrop Grumman Corp.	2,038	243,806
Precision Castparts Corp.	627	158,255
Raytheon Co.	2,664	245,754
Rockwell Collins, Inc.	941	73,530
Rolls-Royce Holdings PLC*	7,501	137,230
Safran SA	1,352	88,519
Thales SA	506	30,607
United Technologies Corp.	2,586	298,554
		2,976,782
Air Freight & Logistics 0.2%		
FedEx Corp.	784	118,682
Royal Mail PLC*	23,937	204,419
United Parcel Service, Inc. "B"	1,176	120,728
		443,829
Airlines 1.1%		
American Airlines Group, Inc.*	2,600	111,696
Cathay Pacific Airways Ltd.	123,791	231,277
Delta Air Lines, Inc.	12,144	470,216
Deutsche Lufthansa AG (Registered)	22,684	487,040
easyJet PLC	9,936	232,111
Japan Airlines Co., Ltd.	7,365	407,127
Singapore Airlines Ltd.	34,474	286,431
Southwest Airlines Co.	14,253	382,835
United Continental Holdings, Inc.*	5,109	209,827
		2,818,560
Building Products 0.0%		
Congoleum Corp.*	3,800	**0**
Commercial Services & Supplies 0.2%		
Babcock International Group PLC	5,273	104,861
Cintas Corp.	1,567	99,567
G4S PLC	30	131
Republic Services, Inc.	5,171	196,343
Societe BIC SA	577	78,945
Tyco International Ltd.	2,351	107,206
Waste Management, Inc.	2,194	98,138
		685,191

	Shares	Value ($)
Construction & Engineering 0.0%		
Jacobs Engineering Group, Inc.*	549	**29,251**
Electrical Equipment 0.3%		
ABB Ltd. (Registered)*	8,638	198,904
AMETEK, Inc.	1,332	69,637
Eaton Corp. PLC	2,821	217,725
Emerson Electric Co.	2,273	150,836
Sumitomo Electric Industries Ltd.	3,605	50,710
		687,812
Industrial Conglomerates 0.6%		
3M Co. (a)	1,724	246,946
Danaher Corp.	2,664	209,737
General Electric Co.	14,338	376,803
Hutchison Whampoa Ltd.	18,021	246,235
Koninklijke Philips NV	2,934	93,106
Roper Industries, Inc.	862	125,861
Sembcorp Industries Ltd.	21,938	94,480
Siemens AG (Registered)	1,248	164,822
Smiths Group PLC	250	5,549
Toshiba Corp.	10,031	46,835
		1,610,374
Machinery 0.4%		
AGCO Corp.	3,761	211,443
Caterpillar, Inc.	862	93,673
Deere & Co.	3,996	361,838
Illinois Tool Works, Inc.	549	48,070
PACCAR, Inc.	1,254	78,789
Parker Hannifin Corp.	627	78,833
Schindler Holding AG (Registered)	503	75,836
SKF AB "B"	29	740
Stanley Black & Decker, Inc.	1,332	116,976
Yangzijiang Shipbuilding Holdings Ltd.	141,107	122,220
		1,188,418
Marine 0.3%		
A P Moller-Maersk AS "A"	149	350,550
A P Moller-Maersk AS "B"	118	293,220
Nippon Yusen Kabushiki Kaisha	83,050	239,382
		883,152
Professional Services 0.2%		
Adecco SA (Registered)*	393	32,351
Equifax, Inc.	1,411	102,354
Nielsen NV	4,545	220,023
SGS SA (Registered)	46	110,228
		464,956
Road & Rail 0.4%		
Canadian National Railway Co.	236	15,349
Central Japan Railway Co.	1,411	201,263
CSX Corp.	3,840	118,310
East Japan Railway Co.	1,097	86,402
MTR Corp., Ltd.	27,814	107,303
Norfolk Southern Corp.	862	88,812
Union Pacific Corp.	2,194	218,852
West Japan Railway Co.	3,761	165,580
		1,001,871
Trading Companies & Distributors 1.1%		
ITOCHU Corp.	41,839	537,314
Marubeni Corp.	78,349	573,087
Mitsubishi Corp.	28,128	585,023
Mitsui & Co., Ltd.	29,851	478,535
Sumitomo Corp.	39,566	534,290

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

	Shares	Value ($)
W.W. Grainger, Inc. (a)	627	159,427
		2,867,676
Information Technology 6.9%		
Communications Equipment 1.0%		
Cisco Systems, Inc.	25,699	638,620
Harris Corp.	3,369	255,202
Juniper Networks, Inc.*	7,764	190,529
Motorola Solutions, Inc.	6,190	412,068
QUALCOMM, Inc.	8,070	639,144
Telefonaktiebolaget LM Ericsson "B"	29,658	358,432
		2,493,995
Electronic Equipment, Instruments & Components 0.7%		
Amphenol Corp. "A"	784	75,531
Arrow Electronics, Inc.*	5,328	321,864
Avnet, Inc.	6,660	295,105
Corning, Inc.	16,140	354,273
Flextronics International Ltd.*	30,008	332,188
FUJIFILM Holdings Corp.	2,821	78,667
Hitachi Ltd.	5,485	40,174
Kyocera Corp.	2,429	115,282
Murata Manufacturing Co., Ltd.	706	66,074
TE Connectivity Ltd.	4,388	271,354
		1,950,512
Internet Software & Services 0.6%		
Dena Co., Ltd.	7,900	106,836
eBay, Inc.*	5,642	282,438
Facebook, Inc. "A"*	3,369	226,700
Google, Inc. "A"*	392	229,191
Google, Inc. "C"*	784	451,019
LinkedIn Corp. "A"*	127	21,777
VeriSign, Inc.* (a)	2,821	137,693
Yahoo!, Inc.*	6,347	222,970
		1,678,624
IT Services 1.7%		
Accenture PLC "A"	4,075	329,423
Alliance Data Systems Corp.*	549	154,406
AtoS	1,677	139,708
Automatic Data Processing, Inc.	3,232	256,233
CGI Group, Inc. "A"*	4,701	166,620
Cognizant Technology Solutions Corp. "A"*	3,291	160,963
Computer Sciences Corp.	3,840	242,688
Fidelity National Information Services, Inc.	5,798	317,382
Fiserv, Inc.*	3,761	226,863
FleetCor Technologies, Inc.*	784	103,331
International Business Machines Corp.	3,056	553,961
Itochu Techno-Solutions Corp.	627	27,264
MasterCard, Inc. "A"	3,134	230,255
Nomura Research Institute Ltd.	1,803	56,775
Paychex, Inc.	3,056	127,007
Total System Services, Inc.	5,250	164,902
Vantiv, Inc. "A"*	3,369	113,266
Visa, Inc. "A"	1,646	346,829
Western Union Co. (a)	12,458	216,022
Xerox Corp.	34,004	423,010
		4,356,908
Semiconductors & Semiconductor Equipment 0.8%		
Analog Devices, Inc.	2,586	139,825
ASML Holding NV	15	1,397
Avago Technologies Ltd.	1,646	118,627
Broadcom Corp. "A"	7,209	267,598
Intel Corp.	21,473	663,516
KLA-Tencor Corp.	3,056	221,988
Lam Research Corp.	2,664	180,033
Marvell Technology Group Ltd.	4,623	66,248
Maxim Integrated Products, Inc.	4,388	148,358
Microchip Technology, Inc. (a)	3,291	160,634
Micron Technology, Inc.*	5,093	167,814
Texas Instruments, Inc.	1,646	78,662
		2,214,700
Software 1.2%		
Activision Blizzard, Inc.	15,827	352,942
ANSYS, Inc.*	784	59,443
CA, Inc.	12,536	360,285
GungHo Online Entertainment, Inc. (a)	10,734	69,296
Intuit, Inc.	3,134	252,381
Microsoft Corp.	14,249	594,183
Nexon Co., Ltd.	17,394	166,033
NICE Systems Ltd.	2,086	85,227
Oracle Corp.	10,813	438,251
SAP AG	2,389	184,499
Symantec Corp.	13,241	303,219
Synopsys, Inc.*	5,407	209,900
The Sage Group PLC	1,325	8,710
VMware, Inc. "A"*	784	75,899
		3,160,268
Technology Hardware, Storage & Peripherals 0.9%		
Apple, Inc.	8,778	815,739
Canon, Inc. (a)	6,974	226,902
EMC Corp.	12,458	328,144
Hewlett-Packard Co.	13,006	438,042
NetApp, Inc.	2,586	94,441
Ricoh Co., Ltd.	12,047	143,534
Seagate Technology PLC	3,683	209,268
Western Digital Corp.	1,959	180,816
		2,436,886
Materials 2.0%		
Chemicals 0.5%		
Agrium, Inc.	1,176	107,731
Asahi Kasei Corp.	19,219	147,028
Ashland, Inc.	862	93,734
BASF SE	8	931
CF Industries Holdings, Inc.	236	56,765
Dow Chemical Co.	784	40,345
E.I. du Pont de Nemours & Co.	1,489	97,440
Ecolab, Inc.	392	43,645
LyondellBasell Industries NV "A"	2,273	221,958
Mitsubishi Chemical Holdings Corp.	38,235	169,464
Monsanto Co.	1,019	127,110
Praxair, Inc.	549	72,929
Syngenta AG (Registered)	306	113,974
		1,293,054
Construction Materials 0.1%		
Fletcher Building Ltd.	8,805	67,918
Holcim Ltd. (Registered)*	3,225	283,479
		351,397
Containers & Packaging 0.1%		
Rock-Tenn Co. "A"	2,978	**314,447**

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

	Shares	Value ($)
Metals & Mining 1.2%		
Anglo American PLC	6,850	167,640
Barrick Gold Corp.	15,984	292,702
BHP Billiton Ltd.	1,942	65,740
BHP Billiton PLC	3,311	107,068
Boliden AB	21,615	313,636
Fortescue Metals Group Ltd.	54,098	221,901
Freeport-McMoRan Copper & Gold, Inc.	7,600	277,400
Glencore PLC	26,125	145,555
Goldcorp, Inc.	5,485	153,079
JFE Holdings, Inc.	3,600	74,306
Mitsubishi Materials Corp.	18,804	65,894
Newmont Mining Corp.	7,383	187,824
Nucor Corp.	4,075	200,694
Rio Tinto PLC	5,732	304,936
Silver Wheaton Corp.	9,011	237,129
Yamana Gold, Inc.	37,843	311,383
		3,126,887
Paper & Forest Products 0.1%		
International Paper Co.	6,974	**351,978**
Telecommunication Services 3.4%		
Diversified Telecommunication Services 2.9%		
AT&T, Inc.	18,726	662,151
BCE, Inc.	7,365	334,067
Bell Aliant, Inc.	4,153	108,549
BT Group PLC	57,981	381,931
CenturyLink, Inc.	10,891	394,254
Deutsche Telekom AG (Registered)	10,731	188,083
Elisa Oyj	5,325	162,893
Frontier Communications Corp. (a)	19,300	112,712
HKT Trust & HKT Ltd.	147,000	172,408
Iliad SA	47	14,207
Nippon Telegraph & Telephone Corp.	11,283	703,677
Orange SA	19,399	306,139
PCCW Ltd.	254,633	151,786
Singapore Telecommunications Ltd.	76,045	234,801
Swisscom AG (Registered)	606	352,270
TDC AS	29,141	301,587
Telecom Corp. of New Zealand Ltd.	113,327	265,919
Telecom Italia SpA (RSP)	204,986	202,516
Telefonica SA	14,181	243,114
Telenor ASA	8,848	201,516
TeliaSonera AB	52,444	383,113
Telstra Corp., Ltd.	66,244	325,441
TELUS Corp.	7,287	271,594
Verizon Communications, Inc. (c)	13,851	677,729
Verizon Communications, Inc. (c)	2,351	115,199
Vivendi SA*	4,103	100,398
Ziggo NV	3,186	147,325
		7,515,379
Wireless Telecommunication Services 0.5%		
KDDI Corp.	4,780	291,552
NTT DoCoMo, Inc.	26,169	447,408
Rogers Communications, Inc. "B"	6,503	261,692
Softbank Corp.	471	35,070
Vodafone Group PLC	112,387	375,061
		1,410,783

	Shares	Value ($)
Utilities 3.7%		
Electric Utilities 2.1%		
American Electric Power Co., Inc.	4,388	244,719
Cheung Kong Infrastructure Holdings Ltd.	30,556	211,515
CLP Holdings Ltd.	10,969	89,729
Duke Energy Corp.	5,407	401,145
E.ON SE	13,270	274,013
Edison International	3,056	177,584
EDP — Energias de Portugal SA	90,266	452,875
Electricite de France SA (a)	4,493	141,502
Enel SpA	13,335	77,676
Entergy Corp.	5,171	424,487
Exelon Corp.	6,503	237,229
FirstEnergy Corp.	4,936	171,378
Fortum Oyj	9,387	252,060
Iberdrola SA	33,374	255,138
NextEra Energy, Inc.	2,743	281,103
Northeast Utilities	3,369	159,253
OGE Energy Corp.	6,660	260,273
Pinnacle West Capital Corp.	5,955	344,437
Power Assets Holdings Ltd.	26,247	229,946
PPL Corp.	6,112	217,159
Southern Co.	6,245	283,398
SSE PLC	7,389	198,155
Tokyo Electric Power Co., Inc.*	17,300	72,066
Xcel Energy, Inc.	6,738	217,166
		5,674,006
Gas Utilities 0.0%		
Enagas SA (a)	22	**708**
Independent Power & Renewable Eletricity Producers 0.2%		
AES Corp.	7,914	123,063
Electric Power Development Co., Ltd.	9,402	305,341
		428,404
Multi-Utilities 1.3%		
AGL Energy Ltd.	3,971	57,964
Alliant Energy Corp.	2,508	152,637
Ameren Corp.	5,955	243,440
Centrica PLC	42,247	226,015
CMS Energy Corp.	2,664	82,984
Consolidated Edison, Inc.	4,310	248,859
Dominion Resources, Inc.	3,291	235,372
DTE Energy Co.	2,194	170,847
GDF Suez	5,853	161,132
Integrys Energy Group, Inc. (a)	4,545	323,286
National Grid PLC	19,631	282,210
NiSource, Inc.	5,250	206,535
PG&E Corp.	6,738	323,559
Public Service Enterprise Group, Inc.	5,720	233,319
SCANA Corp.	3,605	193,985
Sempra Energy	1,567	164,081
Wisconsin Energy Corp.	1,332	62,497
		3,368,722
Water Utilities 0.1%		
American Water Works Co., Inc.	6,503	**321,573**
Total Common Stocks (Cost $128,838,971)		**145,273,333**

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

	Shares	Value ($)
Preferred Stocks 0.4%		
Consumer Discretionary 0.4%		
Bayerische Motoren Werke (BMW) AG	2,391	229,213
Porsche Automobil Holding SE	3,859	402,069
Volkswagen AG	1,322	347,199
		978,481
Financials 0.0%		
Ally Financial, Inc. Series G, 144A, 7.0%	75	**75,565**
Total Preferred Stocks (Cost $921,217)		**1,054,046**
Rights 0.0%		
Telecommunication Services		
HKT Trust & HKT Ltd., Expiration Date 7/15/2014* (Cost $0)	26,460	**7,818**
Warrants 0.0%		
Materials		
GEO Specialty Chemicals, Inc., Expiration Date 3/31/2015*	19,324	14,792
Hercules Trust II, Expiration Date 3/31/2029*	170	1,094
Total Warrants (Cost $30,283)		**15,886**

	Principal Amount ($)(d)	Value ($)
Corporate Bonds 26.6%		
Consumer Discretionary 3.8%		
AmeriGas Finance LLC:		
6.75%, 5/20/2020	110,000	119,350
7.0%, 5/20/2022	195,000	215,962
APX Group, Inc.:		
6.375%, 12/1/2019 (e)	50,000	51,875
144A, 8.75%, 12/1/2020	50,000	50,750
Asbury Automotive Group, Inc., 8.375%, 11/15/2020	15,000	16,650
Ashtead Capital, Inc., 144A, 6.5%, 7/15/2022	80,000	87,400
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	80,000	80,000
Avis Budget Car Rental LLC, 5.5%, 4/1/2023	50,000	51,125
BC Mountain LLC, 144A, 7.0%, 2/1/2021	50,000	48,375
Block Communications, Inc., 144A, 7.25%, 2/1/2020	20,000	21,300
Boyd Gaming Corp., 9.0%, 7/1/2020 (a)	40,000	44,100
CCO Holdings LLC:		
6.5%, 4/30/2021	420,000	447,300
6.625%, 1/31/2022	705,000	757,875
7.375%, 6/1/2020	10,000	10,900
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	385,000	383,556
144A, 6.375%, 9/15/2020	285,000	302,812
Clear Channel Communications, Inc.:		
9.0%, 12/15/2019	250,000	266,562
11.25%, 3/1/2021	70,000	79,363

	Principal Amount ($)(d)	Value ($)
Clear Channel Worldwide Holdings, Inc.:		
Series A, 6.5%, 11/15/2022	65,000	69,388
Series B, 6.5%, 11/15/2022	370,000	398,675
Series A, 7.625%, 3/15/2020	10,000	10,700
Series B, 7.625%, 3/15/2020	255,000	275,081
Cogeco Cable, Inc., 144A, 4.875%, 5/1/2020	5,000	5,063
Columbus International, Inc., 144A, 7.375%, 3/30/2021	500,000	538,750
Cumulus Media Holdings, Inc., 7.75%, 5/1/2019 (a)	50,000	52,688
Delphi Corp., 5.0%, 2/15/2023	70,000	75,250
DISH DBS Corp.:		
4.25%, 4/1/2018	70,000	72,800
5.0%, 3/15/2023	715,000	728,406
7.875%, 9/1/2019	270,000	320,625
Getty Images, Inc., 144A, 7.0%, 10/15/2020 (a)	60,000	54,975
Harron Communications LP, 144A, 9.125%, 4/1/2020	45,000	50,175
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	40,000	44,400
Isle of Capri Casinos, Inc., 5.875%, 3/15/2021	35,000	35,394
Jo-Ann Stores Holdings, Inc., 144A, 9.75%, 10/15/2019 (PIK)	40,000	40,900
Johnson Controls, Inc., 4.95%, 7/2/2064	100,000	101,301
Live Nation Entertainment, Inc., 144A, 7.0%, 9/1/2020	90,000	98,550
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	40,000	42,200
Mediacom Broadband LLC, 6.375%, 4/1/2023	35,000	36,925
MGM Resorts International:		
6.625%, 12/15/2021 (a)	250,000	278,125
6.75%, 10/1/2020	130,000	145,112
8.625%, 2/1/2019	240,000	285,900
Numericable Group SA:		
144A, 6.0%, 5/15/2022	200,000	208,000
144A, 6.25%, 5/15/2024	350,000	365,312
Pinnacle Entertainment, Inc., 6.375%, 8/1/2021	70,000	73,850
Quebecor Media, Inc., 5.75%, 1/15/2023	50,000	51,375
RCI Banque SA, 144A, 3.5%, 4/3/2018	100,000	104,253
Schaeffler Finance BV, 144A, 7.75%, 2/15/2017	845,000	952,737
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021	35,000	35,088
Serta Simmons Holdings LLC, 144A, 8.125%, 10/1/2020	55,000	59,675
Sirius XM Radio, Inc., 144A, 5.875%, 10/1/2020	60,000	63,450
Springs Industries, Inc., 6.25%, 6/1/2021	85,000	86,700
Starz LLC, 5.0%, 9/15/2019	40,000	41,650
Taylor Morrison Communities, Inc., 144A, 5.25%, 4/15/2021	65,000	65,975
The Men's Wearhouse, Inc., 144A, 7.0%, 7/1/2022 (a)	50,000	51,750
Time Warner Cable, Inc., 7.3%, 7/1/2038	45,000	60,535
Travelport LLC, 144A, 6.352%**, 3/1/2016	11,826	11,915

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

		Principal Amount ($)(d)	Value ($)
Unitymedia Hessen GmbH & Co., KG:			
144A, 5.5%, 1/15/2023		200,000	207,000
144A, 7.5%, 3/15/2019	EUR	400,000	586,061
Unitymedia KabelBW GmbH, 144A, 9.625%, 12/1/2019	EUR	110,000	161,584
Viking Cruises Ltd., 144A, 8.5%, 10/15/2022		50,000	55,250
Weyerhaeuser Real Estate Co.:			
144A, 4.375%, 6/15/2019		50,000	50,125
144A, 5.875%, 6/15/2024		20,000	20,575
			10,109,498

Consumer Staples 1.5%

	Principal Amount ($)(d)	Value ($)
Ajecorp BV, 144A, 6.5%, 5/14/2022	500,000	460,000
Big Heart Pet Brands, 7.625%, 2/15/2019	66,000	68,779
BRF SA, 144A, 5.875%, 6/6/2022	200,000	216,500
Chiquita Brands International, Inc., 7.875%, 2/1/2021	44,000	47,905
Controladora Mabe SA de CV, 144A, 7.875%, 10/28/2019	100,000	114,500
Cott Beverages, Inc., 144A, 5.375%, 7/1/2022	85,000	85,213
JBS Investments GmbH, 144A, 7.75%, 10/28/2020	250,000	267,500
JBS U.S.A. LLC:		
144A, 7.25%, 6/1/2021	145,000	155,512
144A, 8.25%, 2/1/2020	370,000	401,450
Marfrig Overseas Ltd., 144A, 9.5%, 5/4/2020	100,000	107,500
Minerva Luxembourg SA, 144A, 12.25%, 2/10/2022	250,000	282,500
Pilgrim's Pride Corp., 7.875%, 12/15/2018	430,000	455,284
Post Holdings, Inc., 144A, 6.0%, 12/15/2022	50,000	51,000
Reynolds Group Issuer, Inc., 5.75%, 10/15/2020	1,145,000	1,207,975
Smithfield Foods, Inc., 6.625%, 8/15/2022	90,000	98,550
		4,020,168

Energy 4.5%

	Principal Amount ($)(d)	Value ($)
Access Midstream Partners LP, 6.125%, 7/15/2022	15,000	16,575
Afren PLC, 144A, 10.25%, 4/8/2019	340,000	385,475
Baytex Energy Corp.:		
144A, 5.125%, 6/1/2021	35,000	35,219
144A, 5.625%, 6/1/2024	35,000	35,131
Berry Petroleum Co., LLC:		
6.375%, 9/15/2022	50,000	53,250
6.75%, 11/1/2020	50,000	52,625
BreitBurn Energy Partners LP, 7.875%, 4/15/2022	350,000	378,875
Chaparral Energy, Inc., 7.625%, 11/15/2022	85,000	91,800
DCP Midstream LLC, 144A, 9.75%, 3/15/2019	200,000	257,873
Delek & Avner Tamar Bond Ltd., 144A, 3.839%, 12/30/2018	500,000	501,782
Ecopetrol SA, 5.875%, 5/28/2045	500,000	517,140
Endeavor Energy Resources LP, 144A, 7.0%, 8/15/2021	85,000	90,738
EP Energy LLC:		
6.875%, 5/1/2019	15,000	15,956
7.75%, 9/1/2022	290,000	326,975
EV Energy Partners LP, 8.0%, 4/15/2019	335,000	351,750
Halcon Resources Corp.:		
8.875%, 5/15/2021	635,000	682,625
9.75%, 7/15/2020	65,000	70,931
Hilcorp Energy I LP, 144A, 5.0%, 12/1/2024 (e)	65,000	65,000
Holly Energy Partners LP, 6.5%, 3/1/2020	10,000	10,775
Kodiak Oil & Gas Corp., 5.5%, 1/15/2021	100,000	104,250
Linn Energy LLC, 6.25%, 11/1/2019	515,000	539,462
MEG Energy Corp., 144A, 7.0%, 3/31/2024	375,000	413,437
Memorial Resource Development Corp., 144A, 5.875%, 7/1/2022 (e)	65,000	65,488
Midstates Petroleum Co., Inc.:		
9.25%, 6/1/2021 (a)	300,000	329,250
10.75%, 10/1/2020	150,000	170,250
Murphy Oil U.S.A., Inc., 6.0%, 8/15/2023	85,000	89,463
Northern Oil & Gas, Inc., 8.0%, 6/1/2020	140,000	149,450
Nostrum Oil & Gas Finance BV, 144A, 6.375%, 2/14/2019	200,000	209,000
Oasis Petroleum, Inc.:		
6.5%, 11/1/2021	375,000	403,125
144A, 6.875%, 3/15/2022	115,000	125,350
6.875%, 1/15/2023	35,000	38,150
7.25%, 2/1/2019	60,000	63,600
Offshore Drilling Holding SA, 144A, 8.375%, 9/20/2020 (a)	200,000	221,500
Offshore Group Investment Ltd.:		
7.125%, 4/1/2023	300,000	304,500
7.5%, 11/1/2019	140,000	148,050
Pacific Rubiales Energy Corp., 144A, 7.25%, 12/12/2021	500,000	555,000
Petrobras Global Finance BV, 6.25%, 3/17/2024	500,000	532,200
Petroleos de Venezuela SA, 144A, 9.0%, 11/17/2021	250,000	212,475
PT Pertamina Persero:		
144A, 5.625%, 5/20/2043	200,000	179,500
144A, 6.45%, 5/30/2044	500,000	496,250
Reliance Holding U.S.A., Inc., 144A, 5.4%, 2/14/2022	250,000	269,940
Rowan Companies, Inc., 4.75%, 1/15/2024	100,000	105,803
Sabine Pass Liquefaction LLC:		
5.625%, 2/1/2021	175,000	185,062
144A, 5.75%, 5/15/2024	200,000	208,500
SandRidge Energy, Inc, 8.125%, 10/15/2022	420,000	462,525
SandRidge Energy, Inc., 7.5%, 3/15/2021	240,000	260,100
SESI LLC, 7.125%, 12/15/2021	380,000	428,450
Seventy Seven Energy, Inc., 144A, 6.5%, 7/15/2022	15,000	15,375
Talisman Energy, Inc., 3.75%, 2/1/2021	120,000	124,058
Talos Production LLC, 144A, 9.75%, 2/15/2018	95,000	100,700
Transocean, Inc., 3.8%, 10/15/2022	370,000	366,198
Whiting Petroleum Corp., 5.0%, 3/15/2019	75,000	78,938
		11,895,894

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

		Principal Amount ($)(d)	Value ($)
Financials 3.8%			
AerCap Ireland Capital Ltd., 144A, 3.75%, 5/15/2019		80,000	80,600
Assured Guaranty U.S. Holdings, Inc., 5.0%, 7/1/2024		135,000	134,196
Banco de Bogota SA, 144A, 5.375%, 2/19/2023		500,000	517,500
Banco de Credito del Peru, 144A, 6.875%, 9/16/2026		100,000	111,750
Banco do Brasil SA, 144A, 9.0%, 12/31/2049		500,000	495,604
Banco Nacional de Costa Rica, 144A, 4.875%, 11/1/2018		500,000	512,500
Banco Santander Brasil SA, 144A, 8.0%, 3/18/2016	BRL	300,000	129,667
Barclays Bank PLC, 7.625%, 11/21/2022		250,000	285,375
BBVA Bancomer SA, 144A, 6.5%, 3/10/2021		500,000	563,750
CIT Group, Inc.:			
5.0%, 5/15/2017		935,000	996,359
5.25%, 3/15/2018		10,000	10,738
Citigroup, Inc., 4.05%, 7/30/2022		145,000	148,552
Country Garden Holdings Co., Ltd., 144A, 7.25%, 4/4/2021		200,000	195,000
Development Bank of Kazakhstan JSC, Series 3, 6.5%, 6/3/2020		500,000	535,600
E*TRADE Financial Corp.:			
6.375%, 11/15/2019		140,000	151,550
6.75%, 6/1/2016		745,000	808,325
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044		305,000	305,866
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022		230,000	243,322
International Lease Finance Corp.:			
3.875%, 4/15/2018		100,000	102,500
6.25%, 5/15/2019		410,000	459,200
8.75%, 3/15/2017		40,000	46,500
Intesa Sanpaolo SpA:			
3.875%, 1/16/2018		200,000	210,787
144A, 5.017%, 6/26/2024		235,000	237,777
Jefferies Group LLC, 5.125%, 1/20/2023		60,000	64,324
Macquarie Group Ltd., 144A, 6.0%, 1/14/2020		235,000	266,217
Morgan Stanley:			
3.75%, 2/25/2023		125,000	127,160
4.1%, 5/22/2023		85,000	86,225
MPT Operating Partnership LP, (REIT), 6.375%, 2/15/2022		40,000	42,900
Navient Corp., 5.5%, 1/25/2023		125,000	123,906
Neuberger Berman Group LLC, 144A, 5.625%, 3/15/2020		10,000	10,575
Omega Healthcare Investors, Inc., (REIT), 144A, 4.95%, 4/1/2024		130,000	132,777
Popular, Inc., 7.0%, 7/1/2019 (e)		50,000	50,750
Royal Bank of Scotland Group PLC, 6.1%, 6/10/2023		100,000	109,459
Schahin II Finance Co. SPV Ltd., 144A, 5.875%, 9/25/2022 (a)		185,733	182,947
Trust F/1401, (REIT), 144A, 5.25%, 12/15/2024		500,000	525,000
Turkiye Is Bankasi:			
144A, 3.875%, 11/7/2017		250,000	250,725
144A, 6.0%, 10/24/2022		250,000	250,125
UniCredit SpA, 8.0%, 4/3/2049		200,000	213,000
Wells Fargo & Co., 5.375%, 11/2/2043		70,000	77,003
Woori Bank Co., Ltd., 144A, 4.75%, 4/30/2024		200,000	201,901
Yapi ve Kredi Bankasi AS, 144A, 5.25%, 12/3/2018		200,000	204,600
			10,202,612
Health Care 1.7%			
Aviv Healthcare Properties LP, 7.75%, 2/15/2019		10,000	10,650
Biomet, Inc.:			
6.5%, 8/1/2020		85,000	91,587
6.5%, 10/1/2020		25,000	26,688
Community Health Systems, Inc.:			
5.125%, 8/15/2018		290,000	304,137
144A, 6.875%, 2/1/2022		620,000	657,200
7.125%, 7/15/2020		170,000	184,025
Endo Finance LLC, 144A, 5.375%, 1/15/2023		80,000	79,900
Fresenius Medical Care U.S. Finance II, Inc., 144A, 5.625%, 7/31/2019		10,000	10,900
Fresenius Medical Care U.S. Finance, Inc., 144A, 6.5%, 9/15/2018		10,000	11,300
HCA, Inc.:			
6.5%, 2/15/2020		880,000	990,000
7.5%, 2/15/2022		725,000	836,469
Hologic, Inc., 6.25%, 8/1/2020		40,000	42,200
IMS Health, Inc., 144A, 6.0%, 11/1/2020		60,000	63,000
Mallinckrodt International Finance SA, 4.75%, 4/15/2023		110,000	106,975
Par Pharmaceutical Companies, Inc., 7.375%, 10/15/2020		90,000	96,750
Physio-Control International, Inc., 144A, 9.875%, 1/15/2019		14,000	15,470
Tenet Healthcare Corp., 6.25%, 11/1/2018		230,000	255,300
Valeant Pharmaceuticals International, Inc., 144A:			
6.375%, 10/15/2020		90,000	95,625
7.5%, 7/15/2021		450,000	498,375
			4,376,551
Industrials 2.2%			
ADT Corp.:			
3.5%, 7/15/2022		50,000	45,500
6.25%, 10/15/2021 (a)		45,000	47,700
Alphabet Holding Co., Inc., 7.75%, 11/1/2017 (PIK)		50,000	51,625
Artesyn Escrow, Inc., 144A, 9.75%, 10/15/2020		70,000	68,775
BE Aerospace, Inc., 6.875%, 10/1/2020		185,000	200,956
Belden, Inc., 144A, 5.5%, 9/1/2022		85,000	87,975

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

	Principal Amount ($)(d)	Value ($)
Bombardier, Inc., 144A, 5.75%, 3/15/2022	328,000	336,200
Cemex Finance LLC, 144A, 9.375%, 10/12/2022	200,000	235,250
DigitalGlobe, Inc., 5.25%, 2/1/2021	35,000	34,650
FTI Consulting, Inc., 6.0%, 11/15/2022	50,000	51,438
Gates Global LLC, 144A, 6.0%, 7/15/2022	65,000	65,000
GenCorp, Inc., 7.125%, 3/15/2021	120,000	131,100
Grupo KUO SAB de CV, 144A, 6.25%, 12/4/2022	400,000	419,000
Huntington Ingalls Industries, Inc., 6.875%, 3/15/2018	560,000	592,200
KazAgro National Management Holding JSC, 144A, 4.625%, 5/24/2023	500,000	483,700
Kenan Advantage Group, Inc., 144A, 8.375%, 12/15/2018	100,000	107,000
Meritor, Inc., 6.75%, 6/15/2021	55,000	59,158
Navios Maritime Holdings, Inc., 144A, 7.375%, 1/15/2022	450,000	463,500
Nortek, Inc., 8.5%, 4/15/2021	155,000	171,275
Odebrecht Offshore Drilling Finance Ltd., 144A, 6.75%, 10/1/2022	192,840	206,435
Titan International, Inc., 6.875%, 10/1/2020	170,000	172,550
TransDigm, Inc.:		
144A, 6.0%, 7/15/2022	210,000	215,775
7.5%, 7/15/2021	150,000	166,125
United Rentals North America, Inc.:		
6.125%, 6/15/2023	10,000	10,725
7.375%, 5/15/2020	25,000	27,625
7.625%, 4/15/2022	620,000	695,950
Votorantim Cimentos SA, 144A, 7.25%, 4/5/2041	500,000	528,125
Watco Companies LLC, 144A, 6.375%, 4/1/2023	40,000	40,800
		5,716,112
Information Technology 1.2%		
ACI Worldwide, Inc., 144A, 6.375%, 8/15/2020	30,000	31,575
Activision Blizzard, Inc., 144A, 5.625%, 9/15/2021	330,000	355,575
Alliance Data Systems Corp., 144A, 5.25%, 12/1/2017	60,000	62,700
Audatex North America, Inc., 144A, 6.0%, 6/15/2021	15,000	16,013
BMC Software Finance, Inc., 144A, 8.125%, 7/15/2021	100,000	102,875
CDW LLC, 8.5%, 4/1/2019	610,000	660,325
CyrusOne LP, 6.375%, 11/15/2022	25,000	26,938
EarthLink Holdings Corp., 7.375%, 6/1/2020	70,000	74,637
Equinix, Inc., 5.375%, 4/1/2023	175,000	178,937
First Data Corp.:		
144A, 6.75%, 11/1/2020	237,000	256,552
144A, 7.375%, 6/15/2019	725,000	778,469
Hughes Satellite Systems Corp.:		
6.5%, 6/15/2019	60,000	66,900
7.625%, 6/15/2021	190,000	217,550
NXP BV, 144A, 3.75%, 6/1/2018	90,000	90,225
Tencent Holdings Ltd., 144A, 3.375%, 5/2/2019	200,000	204,474
		3,123,745

	Principal Amount ($)(d)	Value ($)
Materials 2.6%		
ALROSA Finance SA, 144A, 7.75%, 11/3/2020	700,000	777,411
Anglo American Capital PLC:		
144A, 4.125%, 4/15/2021	200,000	204,718
144A, 4.125%, 9/27/2022 (a)	250,000	251,881
Berry Plastics Corp., 5.5%, 5/15/2022	320,000	321,800
BOE Intermediate Holding Corp., 144A, 9.0%, 11/1/2017 (PIK)	87,717	91,993
BOE Merger Corp., 144A, 9.5%, 11/1/2017 (PIK)	100,000	105,375
Braskem Finance Ltd., 6.45%, 2/3/2024	200,000	213,750
Cascades, Inc., 144A, 5.5%, 7/15/2022	50,000	49,875
Cliffs Natural Resources, Inc., 3.95%, 1/15/2018 (a)	235,000	238,132
First Quantum Minerals Ltd.:		
144A, 6.75%, 2/15/2020	259,000	266,770
144A, 7.0%, 2/15/2021	129,000	132,709
FMG Resources (August 2006) Pty Ltd., 144A, 6.0%, 4/1/2017 (a)	195,000	201,338
Fresnillo PLC, 144A, 5.5%, 11/13/2023	500,000	522,500
Glencore Funding LLC, 144A, 4.125%, 5/30/2023	50,000	50,217
GTL Trade Finance, Inc., 144A, 5.893%, 4/29/2024 (a)	600,000	629,400
Hexion U.S. Finance Corp.:		
6.625%, 4/15/2020	385,000	408,100
8.875%, 2/1/2018 (a)	90,000	93,600
IAMGOLD Corp., 144A, 6.75%, 10/1/2020	75,000	69,375
Kaiser Aluminum Corp., 8.25%, 6/1/2020	40,000	45,000
Metalloinvest Finance Ltd., 144A, 5.625%, 4/17/2020	200,000	194,000
Novelis, Inc., 8.75%, 12/15/2020	955,000	1,060,050
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021	70,000	73,850
Polymer Group, Inc., 7.75%, 2/1/2019	229,000	243,312
Samarco Mineracao SA, 144A, 5.75%, 10/24/2023	200,000	209,940
Sealed Air Corp.:		
144A, 8.125%, 9/15/2019	10,000	11,013
144A, 8.375%, 9/15/2021	10,000	11,450
Tronox Finance LLC, 6.375%, 8/15/2020	55,000	56,788
Turkiye Sise ve Cam Fabrikalari AS, 144A, 4.25%, 5/9/2020	200,000	193,000
Yamana Gold, Inc., 144A, 4.95%, 7/15/2024	250,000	251,644
		6,978,991
Telecommunication Services 4.5%		
Bharti Airtel International Netherlands BV, 144A, 5.35%, 5/20/2024	500,000	518,775
CC Holdings GS V LLC, 3.849%, 4/15/2023	120,000	120,466
CenturyLink, Inc., Series V, 5.625%, 4/1/2020	25,000	26,375
Cincinnati Bell, Inc.:		
8.375%, 10/15/2020	775,000	849,594
8.75%, 3/15/2018	430,000	450,962

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

	Principal Amount ($)(d)	Value ($)
Colombia Telecomunicaciones SA ESP, 144A, 5.375%, 9/27/2022	200,000	199,700
Digicel Group Ltd.:		
144A, 7.125%, 4/1/2022	250,000	260,625
144A, 8.25%, 9/30/2020	200,000	218,000
Digicel Ltd., 144A, 8.25%, 9/1/2017	750,000	771,600
Frontier Communications Corp.:		
7.125%, 1/15/2023	390,000	413,400
8.5%, 4/15/2020	290,000	342,200
Intelsat Jackson Holdings SA:		
5.5%, 8/1/2023	265,000	263,675
7.25%, 10/15/2020	690,000	743,475
7.5%, 4/1/2021	340,000	372,300
Intelsat Luxembourg SA:		
7.75%, 6/1/2021	165,000	174,694
8.125%, 6/1/2023	25,000	27,031
Level 3 Communications, Inc., 8.875%, 6/1/2019	205,000	224,219
Level 3 Financing, Inc.:		
144A, 6.125%, 1/15/2021	100,000	107,125
7.0%, 6/1/2020	185,000	202,112
8.625%, 7/15/2020	450,000	504,000
MetroPCS Wireless, Inc., 6.625%, 11/15/2020	655,000	699,212
Millicom International Cellular SA, 144A, 4.75%, 5/22/2020	200,000	200,000
Oi SA, 144A, 5.75%, 2/10/2022	200,000	199,600
SBA Communications Corp., 5.625%, 10/1/2019	50,000	52,938
Sprint Communications, Inc.:		
6.0%, 11/15/2022	85,000	86,700
144A, 7.0%, 3/1/2020	85,000	97,750
144A, 9.0%, 11/15/2018	420,000	509,250
9.125%, 3/1/2017	15,000	17,569
Sprint Corp., 144A, 7.125%, 6/15/2024	175,000	185,500
T-Mobile U.S.A., Inc., 6.625%, 4/1/2023 (a)	70,000	75,950
tw telecom holdings, Inc.:		
5.375%, 10/1/2022	90,000	98,437
6.375%, 9/1/2023	70,000	79,625
UPCB Finance III Ltd., 144A, 6.625%, 7/1/2020	370,000	394,050
UPCB Finance V Ltd., 144A, 7.25%, 11/15/2021	280,000	308,000
Verizon Communications, Inc., 6.55%, 9/15/2043	225,000	283,149
VimpelCom Holdings BV, 144A, 7.504%, 3/1/2022	200,000	215,750
Wind Acquisition Finance SA, 144A, 6.5%, 4/30/2020	50,000	54,188
Windstream Corp.:		
6.375%, 8/1/2023	60,000	60,825
7.5%, 4/1/2023	20,000	21,650
7.75%, 10/15/2020	1,075,000	1,165,031
7.75%, 10/1/2021	185,000	202,113
7.875%, 11/1/2017	130,000	149,663
		11,947,278

Utilities 0.8%

	Principal Amount ($)(d)	Value ($)
AES Corp.:		
8.0%, 10/15/2017	6,000	6,990
8.0%, 6/1/2020	30,000	36,075
Calpine Corp.:		
144A, 7.5%, 2/15/2021	676,000	733,460
144A, 7.875%, 7/31/2020	36,000	39,060
Electricite de France SA, 144A, 5.25%, 1/29/2049	100,000	102,013
Empresa de Energia de Bogota SA ESP, 144A, 6.125%, 11/10/2021	500,000	546,250
FirstEnergy Transmission LLC, 144A, 4.35%, 1/15/2025	140,000	141,445
NGL Energy Partners LP, 144A, 5.125%, 7/15/2019 (e)	65,000	65,162
NRG Energy, Inc., 144A, 6.25%, 5/1/2024	360,000	376,200
		2,046,655
Total Corporate Bonds (Cost $68,241,756)		**70,417,504**

Asset-Backed 0.7%

Automobile Receivables 0.2%

	Principal Amount ($)(d)	Value ($)
AmeriCredit Automobile Receivables Trust, "E", Series 2011-2, 144A, 5.48%, 9/10/2018	528,181	**549,501**

Miscellaneous 0.5%

	Principal Amount ($)(d)	Value ($)
ARES CLO Ltd., "D", Series 2012-3A, 144A, 4.876%**, 1/17/2024	250,000	250,544
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	500,000	499,972
VOLT XXIV LLC, "A1", Series 2014-NPL3, 144A, 3.25%, 11/25/2053	486,786	487,965
		1,238,481
Total Asset-Backed (Cost $1,784,644)		**1,787,982**

Mortgage-Backed Securities Pass-Throughs 0.0%

	Principal Amount ($)(d)	Value ($)
Federal Home Loan Mortgage Corp., 6.0%, 3/1/2038	9,489	10,655
Federal National Mortgage Association:		
4.5%, 9/1/2035	26,078	28,405
6.0%, 1/1/2024	31,609	35,692
6.5%, with various maturities from 5/1/2017 until 1/1/2038	6,338	6,781
Total Mortgage-Backed Securities Pass-Throughs (Cost $73,321)		**81,533**

Commercial Mortgage-Backed Securities 0.5%

	Principal Amount ($)(d)	Value ($)
Del Coronado Trust, "M", Series 2013-HDMZ, 144A, 5.152%**, 3/15/2018	120,000	120,756
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"C", Series 2012-HSBC, 144A, 4.021%, 7/5/2032	380,000	395,419
"A4", Series 2007-C1, 5.716%, 2/15/2051	225,000	247,762
LB-UBS Commercial Mortgage Trust, "A4", Series 2007-C6, 5.858%, 7/15/2040	245,347	262,888

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

	Principal Amount ($)(d)	Value ($)
Prudential Commercial Mortgage Trust, "F", Series 2003-PWR1, 144A, 5.233%**, 2/11/2036	400,000	400,625
Total Commercial Mortgage-Backed Securities (Cost $1,409,937)		**1,427,450**

Collateralized Mortgage Obligations 1.3%

	Principal Amount ($)(d)	Value ($)
Federal Home Loan Mortgage Corp.:		
"HI", Series 3979, Interest Only, 3.0%, 12/15/2026	661,874	72,410
"IK", Series 4048, Interest Only, 3.0%, 5/15/2027	748,877	96,737
"ZB", Series 4183, 3.0%, 3/15/2043	1,036,155	879,664
"ZG", Series 4213, 3.5%, 6/15/2043	108,429	108,521
"LI", Series 3720, Interest Only, 4.5%, 9/15/2025	1,289,697	188,851
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038	680,938	86,773
"H", Series 2278, 6.5%, 1/15/2031	141	157
Federal National Mortgage Association:		
"WO", Series 2013-27, Principal Only, Zero Coupon, 12/25/2042	220,000	98,314
"I", Series 2003-84, Interest Only, 6.0%, 9/25/2033	232,817	45,518
"PI", Series 2006-20, Interest Only, 6.528%***, 11/25/2030	419,504	72,558
Government National Mortgage Association:		
"ZJ", Series 2013-106, 3.5%, 7/20/2043	141,571	137,858
"QI", Series 2011-112, Interest Only, 4.0%, 5/16/2026	769,490	79,721
"NI", Series 2011-80, Interest Only, 4.5%, 5/16/2038	1,067,046	86,681
"BI", Series 2010-30, Interest Only, 4.5%, 7/20/2039	130,268	19,364
"ND", Series 2010-130, 4.5%, 8/16/2039	600,000	648,150
"MI", Series 2009-76, Interest Only, 5.0%, 3/20/2035	18,207	22
"IQ", Series 2011-18, Interest Only, 5.5%, 1/16/2039	327,800	37,930
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	571,474	100,549
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	575,580	96,899
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	422,168	77,582
"AI", Series 2007-38, Interest Only, 6.308%***, 6/16/2037	98,515	15,023
Residential Funding Mortgage Securities I, Inc., "M1", Series 2003-S17, 5.5%, 9/25/2033	474,675	404,870
Total Collateralized Mortgage Obligations (Cost $3,184,283)		**3,354,152**

Government & Agency Obligations 6.8%

Other Government Related (f) 1.2%

		Principal Amount ($)(d)	Value ($)
Banco de Costa Rica, 144A, 5.25%, 8/12/2018		200,000	205,000
Bank of Moscow, 144A, 6.699%, 3/11/2015		250,000	257,027
MMC Norilsk Nickel OJSC, 144A, 5.55%, 10/28/2020		200,000	201,000
Queensland Treasury Corp., Series 33, 6.5%, 3/14/2033	AUD	1,225,000	1,447,504
Sberbank of Russia, 144A, 5.25%, 5/23/2023		500,000	468,750
TMK OAO, 144A, 6.75%, 4/3/2020		450,000	438,750
VTB Bank OJSC, 144A, 6.0%, 4/12/2017 (a)		250,000	263,500
			3,281,531

Sovereign Bonds 2.4%

		Principal Amount ($)(d)	Value ($)
Government of France, 0.7%, 7/25/2030	EUR	1,119,099	1,554,143
Kingdom of Morocco, 144A, 4.25%, 12/11/2022		250,000	250,312
Perusahaan Penerbit SBSN, 144A, 6.125%, 3/15/2019		500,000	555,625
Province of New Brunswick Canada, 3.55%, 6/3/2043	CAD	900,000	806,926
Republic of Belarus, REG S, 8.75%, 8/3/2015		100,000	102,880
Republic of Croatia, 144A, 6.75%, 11/5/2019		500,000	560,625
Republic of El Salvador, 144A, 7.65%, 6/15/2035		200,000	216,300
Republic of Ghana, 144A, 8.5%, 10/4/2017		200,000	210,000
Republic of Hungary, 4.125%, 2/19/2018		50,000	52,125
Republic of Romania, 4.875%, 11/7/2019	EUR	100,000	155,203
Republic of Singapore, 3.375%, 9/1/2033	SGD	1,575,000	1,333,425
Republic of South Africa:			
5.875%, 9/16/2025		250,000	277,875
Series R204, 8.0%, 12/21/2018	ZAR	800,000	76,440
Republic of Sri Lanka, 144A, 5.125%, 4/11/2019		200,000	203,250
			6,355,129

U.S. Government Sponsored Agency 0.4%

	Principal Amount ($)(d)	Value ($)
Federal National Mortgage Association, 3.0%, 11/15/2027	1,000,000	**928,596**

U.S. Treasury Obligations 2.8%

	Principal Amount ($)(d)	Value ($)
U.S. Treasury Bills:		
0.015%****, 8/14/2014 (g)	658,000	657,982
0.03%****, 12/11/2014 (g)	85,000	84,981
0.055%****, 12/11/2014 (g)	156,000	155,965
0.065%****, 8/14/2014 (g)	355,000	354,990
0.07%****, 8/14/2014 (g)	314,000	313,992
U.S. Treasury Bond, 5.375%, 2/15/2031	1,071,000	1,406,190
U.S. Treasury Notes:		
1.0%, 8/31/2016 (h)	3,000,000	3,030,936
1.0%, 9/30/2016	1,200,000	1,211,626
1.5%, 5/31/2019	102,000	101,490
2.5%, 5/15/2024	233,000	232,672
		7,550,824
Total Government & Agency Obligations (Cost $17,838,512)		**18,116,080**

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

	Principal Amount ($)(d)	Value ($)
Municipal Bonds and Notes 0.1%		
Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018 (Cost $323,760)	323,761	**336,242**
Convertible Bond 0.2%		
Materials		
GEO Specialty Chemicals, Inc., 7.5%, 3/31/2015 (PIK) (Cost $207,614)	209,283	**421,391**
Preferred Security 0.0%		
Materials		
Hercules, Inc., 6.5%, 6/30/2029 (Cost $20,415)	40,000	**36,200**

	Shares	Value ($)
Securities Lending Collateral 3.0%		
Daily Assets Fund Institutional, 0.08% (i) (j) (Cost $7,981,988)	7,981,988	**7,981,988**
Cash Equivalents 8.2%		
Central Cash Management Fund, 0.06% (i) (Cost $21,611,026)	21,611,026	**21,611,026**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $252,467,727)†	102.6	**271,922,631**
Other Assets and Liabilities, Net	(2.6)	**(6,846,113)**
Net Assets	100.0	**265,076,518**

* 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, 2014.

*** Current yield; not a coupon rate

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

† The cost for federal income tax purposes was $252,802,480. At June 30, 2014, net unrealized appreciation for all securities based on tax cost was $19,120,151. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $21,386,942 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,266,791.

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at June 30, 2014 amounted to $7,727,752, which is 2.9% of net assets.

(b) 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
Dawn Holdings, Inc.*	August 2013	2,342	1,940	0.00

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

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

(e) When-issued security.

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

(g) At June 30, 2014, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(h) At June 30, 2014, this security has been pledged, in whole or in part, as collateral for open over-the-counter derivatives and initial margin requirements for centrally cleared swap contracts.

(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

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

RSP: Risparmio (Convertible Savings Shares)

Included in the portfolio are investments in mortgage- or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal National Mortgage Association issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

At June 30, 2014, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
10 Year U.S. Treasury Note	USD	9/19/2014	183	22,906,453	78,200
5 Year U.S. Treasury Note	USD	9/30/2014	66	7,884,422	46,161
U.S. Treasury Long Bond	USD	9/19/2014	14	1,920,625	9,993
Total unrealized appreciation					**134,354**

At June 30, 2014, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
10 Year Canadian Government Bond	CAD	9/19/2014	27	3,440,757	(36,564)
Euro-BTP Italian Government Bond	EUR	9/8/2014	13	2,246,118	(40,254)
Euro-OAT French Government Bond	EUR	9/8/2014	24	4,618,266	(67,697)
U.S. Treasury Long Bond	USD	9/19/2014	8	1,097,500	(1,263)
Ultra Long U.S. Treasury Bond	USD	9/19/2014	13	1,949,188	(24,942)
Total unrealized depreciation					**(170,720)**

At June 30, 2014, open written options contracts were as follows:

Options on Interest Rate Swap Contracts	Swap Effective/ Expiration Date	Contract Amount	Option Expiration Date	Premiums Received ($)	Value ($) (k)
Call Options Receive Fixed — 4.48% – Pay Floating — LIBOR	5/11/2016 5/11/2026	2,100,000[1]	5/5/2016	23,572	(18,120)
Receive Fixed — 5.132% – Pay Floating — LIBOR	3/17/2016 3/17/2026	2,100,000[1]	3/15/2016	15,173	(5,543)
Receive Fixed — 5.132% – Pay Floating — LIBOR	3/17/2016 3/17/2026	2,100,000[2]	3/15/2016	24,780	(5,543)
Total Call Options				**63,525**	**(29,206)**
Put Options Pay Fixed — 1.132% – Receive Floating — LIBOR	3/17/2016 3/17/2026	2,100,000[1]	3/15/2016	15,172	(591)
Pay Fixed — 1.132% – Receive Floating — LIBOR	3/17/2016 3/17/2026	2,100,000[2]	3/15/2016	5,355	(591)
Pay Fixed — 2.48% – Receive Floating — LIBOR	5/11/2016 5/11/2026	2,100,000[1]	5/5/2016	23,573	(22,027)
Pay Fixed — 2.796% – Receive Floating — LIBOR	6/5/2015 6/5/2045	1,900,000[2]	6/3/2015	20,330	(16,260)
Pay Fixed — 3.005% – Receive Floating — LIBOR	3/6/2015 3/6/2045	1,900,000[1]	3/4/2015	19,950	(21,925)
Pay Fixed — 3.033% – Receive Floating — LIBOR	10/24/2014 10/24/2044	4,900,000[3]	10/22/2014	62,230	(27,586)
Pay Fixed — 3.035% – Receive Floating — LIBOR	2/15/2015 2/3/2045	1,900,000[2]	1/30/2015	23,465	(21,675)
Pay Fixed — 3.088% – Receive Floating — LIBOR	1/28/2015 1/28/2045	2,100,000[4]	1/26/2015	21,184	(27,677)
Pay Fixed — 3.093% – Receive Floating — LIBOR	10/21/2014 10/21/2044	4,900,000[2]	10/17/2014	67,620	(36,419)
Total Put Options				**258,879**	**(174,751)**
Total				**322,404**	**(203,957)**

(k) Unrealized appreciation on written options on interest rate swap contracts at June 30, 2014 was $118,447.

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

As of June 30, 2014, open credit default swap contracts sold were as follows:

Bilateral Swaps

Effective/ Expiration Dates	Notional Amount ($) (l)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (m)	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Appreciation ($)
9/20/2012 12/20/2017	125,000[5]	5.0%	General Motors Corp., 3.3%, 12/20/2017, BB+	17,876	6,453	**11,423**

(l) The maximum potential amount of future undiscounted payments that the Fund could be required to make under a credit default swap contract would be the notional amount of the contract. These potential amounts would be partially offset by any recovery values of the referenced debt obligation or net amounts received from the settlement of buy protection credit default swap contracts entered into by the Fund for the same referenced debt obligation, if any.

(m) 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, 2014, open interest rate swap contracts were as follows:

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
12/30/2014 12/30/2019	100,000	Floating — LIBOR	Fixed — 2.522%	2,536	2,622
12/30/2014 12/30/2016	2,100,000	Floating — LIBOR	Fixed — 1.173%	10,784	11,063
12/30/2014 12/30/2024	3,800,000	Fixed — 3.524%	Floating — LIBOR	(243,556)	(243,182)
12/30/2014 12/30/2044	300,000	Floating — LIBOR	Fixed — 4.081%	39,959	40,331
5/11/2015 5/11/2045	2,100,000	Fixed — 3.56%	Floating — LIBOR	(44,167)	(42,977)
6/3/2013 6/3/2025	2,100,000	Fixed — 3.0%	Floating — LIBOR	(63,185)	(60,121)
Total net unrealized depreciation					**(292,264)**

Bilateral Swap

Effective/ Expiration Dates	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Upfront Payment Paid/(Received) ($)	Unrealized Depreciation ($)
6/3/2013 6/3/2025	2,100,000[1]	Floating — LIBOR	Fixed — 3.0%	(12,686)	—	**(12,686)**

Counterparties:

1 Nomura International PLC

2 BNP Paribas

3 Citigroup, Inc.

4 Barclays Bank PLC

5 UBS AG

LIBOR: London Interbank Offered Rate

As of June 30, 2014, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	3,541,624	EUR	2,600,000	7/21/2014	18,812	Australia & New Zealand Banking Group Ltd.
USD	1,004,953	CAD	1,096,000	7/23/2014	21,655	Canadian Imperial Bank of Commerce
USD	3,452,838	JPY	350,000,000	8/4/2014	2,925	Macquarie Bank Ltd.
USD	403,942	MXN	5,300,000	8/18/2014	3,265	Commonwealth Bank of Australia
USD	864,732	ZAR	9,400,000	8/18/2014	12,300	Commonwealth Bank of Australia
ZAR	9,400,000	USD	877,527	8/18/2014	495	Commonwealth Bank of Australia
ZAR	810,000	USD	75,969	8/18/2014	395	Nomura International PLC
RUB	19,550,000	USD	567,746	9/30/2014	4,100	Societe Generale
Total unrealized appreciation					**63,947**	

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

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
USD	2,929,527	NOK	17,700,000	7/21/2014	(45,918)	Societe Generale
USD	1,158,691	NOK	7,000,000	7/21/2014	(18,280)	Citigroup. Inc.
USD	4,024,310	NZD	4,600,000	7/21/2014	(3,727)	Citigroup. Inc.
NZD	3,300,000	USD	2,862,011	7/21/2014	(22,320)	Australia & New Zealand Banking Group Ltd.
NOK	12,300,000	USD	2,002,002	7/21/2014	(1,863)	Barclays Bank PLC
NOK	12,300,000	USD	2,002,173	7/21/2014	(1,692)	Societe Generale
NZD	1,300,000	USD	1,128,615	7/21/2014	(7,637)	Citigroup. Inc.
SGD	2,334,490	USD	1,868,096	7/23/2014	(4,149)	Commonwealth Bank of Australia
AUD	1,411,800	USD	1,312,673	7/23/2014	(16,584)	Nomura International PLC
CAD	852,544	USD	773,795	7/23/2014	(24,771)	Barclays Bank PLC
EUR	1,121,400	USD	1,521,999	7/23/2014	(13,656)	Australia & New Zealand Banking Group Ltd.
EUR	548,000	USD	743,611	7/25/2014	(6,831)	JPMorgan Chase Securities, Inc.
Total unrealized depreciation					**(167,428)**	

Currency Abbreviations

AUD	Australian Dollar	JPY	Japanese Yen	RUB	Russian Ruble
BRL	Brazilian Real	MXN	Mexican Peso	SGD	Singapore Dollar
CAD	Canadian Dollar	NOK	Norwegian Krone	USD	United States Dollar
EUR	Euro	NZD	New Zealand Dollar	ZAR	South African Rand

For information on the Fund's policy and additional disclosures regarding futures contracts, credit default swap contracts, interest rate swap contracts, forward foreign currency exchange contracts and written options 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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2014 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				
Consumer Discretionary	$ 8,928,966	$ 5,328,913	$ 1,940	$ 14,259,819
Consumer Staples	8,134,413	4,370,591	—	12,505,004
Energy	8,053,237	5,317,364	—	13,370,601
Financials	18,081,811	17,856,361	—	35,938,172
Health Care	8,226,438	2,866,196	—	11,092,634
Industrials	7,387,968	8,269,904	0	15,657,872
Information Technology	16,417,083	1,874,810	—	18,291,893
Materials	3,188,293	2,249,470	—	5,437,763
Telecommunication Services	2,822,748	6,103,414	—	8,926,162
Utilities	6,505,368	3,288,045	—	9,793,413
Preferred Stocks (n)	—	1,054,046	—	1,054,046
Rights (n)	7,818	—	—	7,818
Warrants (n)	—	—	15,886	15,886
Fixed Income Investments (n)				
Corporate Bonds	—	70,417,504	—	70,417,504
Asset-Backed	—	1,787,982	—	1,787,982
Mortgage-Backed Securities Pass-Throughs	—	81,533	—	81,533
Commercial Mortgage-Backed Securities	—	1,427,450	—	1,427,450
Collateralized Mortgage Obligations	—	3,354,152	—	3,354,152
Government & Agency Obligations	—	18,116,080	—	18,116,080
Municipal Bonds and Notes	—	336,242	—	336,242
Convertible Bond	—	—	421,391	421,391
Preferred Security	—	36,200	—	36,200
Short-Term Investments (n)	29,593,014	—	—	29,593,014
Derivatives (o)				
Futures Contracts	134,354	—	—	134,354
Credit Default Swap Contracts	—	11,423	—	11,423
Interest Rate Swap Contracts	—	54,016	—	54,016
Forward Foreign Currency Exchange Contracts	—	63,947	—	63,947
Total	**$117,481,511**	**$154,265,643**	**$ 439,217**	**$272,186,371**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (o)				
Futures Contracts	$ (170,720)	$ —	$ —	$ (170,720)
Written Options	—	(203,957)	—	(203,957)
Interest Rate Swap Contracts	—	(358,966)	—	(358,966)
Forward Foreign Currency Exchange Contracts	—	(167,428)	—	(167,428)
Total	**$ (170,720)**	**$ (730,351)**	**$ —**	**$ (901,071)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2014.

(n) See Investment Portfolio for additional detailed categorizations.

(o) Derivatives include value of 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, 2014 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $222,874,713) — including $7,727,752 of securities loaned	$ 242,329,617
Investment in Daily Assets Fund Institutional (cost $7,981,988)*	7,981,988
Investment in Central Cash Management Fund (cost $21,611,026)	21,611,026
Total investments in securities, at value (cost $252,467,727)	271,922,631
Foreign currency, at value (cost $501,880)	503,550
Receivable for investments sold	1,103,677
Receivable for investments sold — when-issued/delayed delivery securities	84,313
Receivable for Fund shares sold	375,894
Dividends receivable	293,894
Interest receivable	1,211,027
Receivable for variation margin on futures contracts	79,159
Unrealized appreciation on bilateral swap contracts	11,423
Unrealized appreciation on forward foreign currency exchange contracts	63,947
Upfront payments paid on bilateral swap contracts	6,453
Foreign taxes recoverable	125,910
Other assets	1,722
Total assets	275,783,600
Liabilities	
Cash overdraft	758,170
Payable upon return of securities loaned	7,981,988
Payable for investments purchased	889,653
Payable for investments purchased — when-issued/delayed delivery securities	391,247
Payable for Fund shares redeemed	61,978
Options written, at value (premium received $322,404)	203,957
Unrealized depreciation on bilateral swap contracts	12,686
Unrealized depreciation on forward foreign currency exchange contracts	167,428
Payable for variation margin on centrally cleared swaps	20,111
Accrued management fee	80,377
Accrued Trustees' fees	22
Other accrued expenses and payables	139,465
Total liabilities	10,707,082
Net assets, at value	**$ 265,076,518**
Net Assets Consist of	
Undistributed net investment income	3,924,017
Net unrealized appreciation (depreciation) on:	
Investments	19,454,904
Swap contracts	(293,527)
Futures	(36,366)
Foreign currency	(94,346)
Written options	118,447
Accumulated net realized gain (loss)	4,194,458
Paid-in capital	237,808,931
Net assets, at value	**$ 265,076,518**
Class A	
Net Asset Value, offering and redemption price per share ($265,076,518 ÷ 10,607,493 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 24.99**

* 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, 2014 (Unaudited)

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $168,242)	$ 2,946,645
Interest	2,128,103
Income distributions — Central Cash Management Fund	3,947
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	45,913
Total income	5,124,608
Expenses:	
Management fee	484,030
Administration fee	131,319
Services to shareholders	767
Custodian fee	58,149
Professional fees	47,394
Reports to shareholders	34,201
Trustees' fees and expenses	6,331
Other	34,443
Total expenses	796,634
Net investment income	**4,327,974**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	4,225,697
Swap contracts	(225,496)
Futures	891,504
Written options	89,880
Foreign currency	413,621
	5,395,206
Change in net unrealized appreciation (depreciation) on:	
Investments	5,715,502
Swap contracts	(217,751)
Futures	(1,029,258)
Written options	2,060
Foreign currency	(320,812)
	4,149,741
Net gain (loss)	**9,544,947**
Net increase (decrease) in net assets resulting from operations	**$ 13,872,921**

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, 2014 (Unaudited)	Year Ended December 31, 2013
Operations:		
Net investment income	$ 4,327,974	$ 8,106,989
Net realized gain (loss)	5,395,206	30,650,529
Change in net unrealized appreciation (depreciation)	4,149,741	1,922,701
Net increase (decrease) in net assets resulting from operations	13,872,921	40,680,219
Distributions to shareholders from:		
Net investment income: Class A	(8,047,271)	(5,498,634)
Net realized gains: Class A	(26,528,998)	—
Total distributions	(34,576,269)	(5,498,634)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,949,911	7,161,669
Shares issued to shareholders in reinvestment of distributions	34,576,269	5,498,634
Payments for shares redeemed	(20,829,088)	(39,157,373)
Net increase (decrease) in net assets from Class A share transactions	16,697,092	(26,497,070)
Increase (decrease) in net assets	(4,006,256)	8,684,515
Net assets at beginning of period	269,082,774	260,398,259
Net assets at end of period (including undistributed net investment income of $3,924,017 and $7,643,314, respectively)	**$ 265,076,518**	**$ 269,082,774**

Other Information		
Class A		
Shares outstanding at beginning of period	9,857,478	10,896,924
Shares sold	111,533	284,532
Shares issued to shareholders in reinvestment of distributions	1,433,510	220,917
Shares redeemed	(795,028)	(1,544,895)
Net increase (decrease) in Class A shares	750,015	(1,039,446)
Shares outstanding at end of period	10,607,493	9,857,478

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

Financial Highlights

Class A	Six Months Ended 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$27.30**	**$23.90**	**$21.49**	**$22.13**	**$20.52**	**$17.35**
Income (loss) from investment operations:						
Net investment income[a]	.43	.78	.57	.46	.39	.44
Net realized and unrealized gain (loss)	.91	3.14	2.20	(.75)	1.88	3.43
Total from investment operations	1.34	3.92	2.77	(.29)	2.27	3.87
Less distributions from:						
Net investment income	(.85)	(.52)	(.36)	(.35)	(.66)	(.70)
Net realized gains	(2.80)	—	—	—	—	—
Total distributions	(3.65)	(.52)	(.36)	(.35)	(.66)	(.70)
Net asset value, end of period	**$24.99**	**$27.30**	**$23.90**	**$21.49**	**$22.13**	**$20.52**
Total Return (%)	5.39**	16.63	12.98	(1.42)	11.22	23.43
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	265	269	260	264	308	319
Ratio of expenses (%)	.61*	.60	.59	.58	.65	.60
Ratio of net investment income (%)	3.30*	3.07	2.48	2.09	1.89	2.40
Portfolio turnover rate (%)	53**	182	188	109	203	207

a Based on average shares outstanding during the period.

* Annualized

** Not annualized

Notes to Financial Statements

(Unaudited)

A. Organization and Significant Accounting Policies

Deutsche Global Income Builder VIP (formerly DWS Global Income Builder VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities are generally categorized as Level 1. 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 are valued at prices supplied by independent pricing services approved by the Fund's Board. 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, prepayment speeds and other data, as well as broker quotes. If the pricing services are unable to provide valuations, debt securities are valued at the average of the most recent reliable bid quotations or evaluated prices, as applicable, obtained from broker-dealers. 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 considered 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, 2014, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

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. Additionally, the Fund may be required to post securities and/or cash collateral in accordance with the terms 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, 2013 and has determined that no provision for income tax and/or uncertain tax provisions 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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments. 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

Swaps. A swap is a contract between two parties to exchange future cash flows at periodic intervals based on the notional amount of the swap. A bilateral swap is a transaction between the fund and a counterparty where cash flows are exchanged between the two parties. A centrally cleared swap is a transaction executed between the fund and a counterparty, then cleared by a clearing member through a central clearinghouse. The central clearinghouse serves as the counterparty, with whom the fund exchanges cash flows.

The value of a 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. Gains or losses are realized when the swap expires or is closed. Certain risks may arise when entering into swap transactions including counterparty default; liquidity; or unfavorable changes in interest rates or the value of the underlying reference security, commodity or index. In connection with bilateral swaps, securities and/or cash may be identified as collateral in accordance with the terms of the swap agreement 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 swap, 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. Upon entering into a centrally cleared swap, 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 notional amount of the swap. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value of the swap. In a cleared swap transaction, counterparty risk is minimized as the central clearinghouse acts as the counterparty.

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.

Interest Rate Swaps. Interest rate swaps are agreements in which the Fund agrees to pay to 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. The payment obligations are based on the notional amount of the swap. For the six months ended June 30, 2014, the Fund entered into interest rate swap agreements to gain exposure to different parts of the yield curve while managing overall duration.

A summary of the open interest rate swap contracts as of June 30, 2014 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2014, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $10,500,000 to $12,600,000.

Credit Default Swaps. Credit default swaps are agreements between a buyer and a seller of protection against predefined credit events for the reference entity. The Fund may enter into credit default swaps 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 of a credit default swap, 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 swap 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 swaps, in which case the Fund functions as the counterparty referenced above. This involves the risk that the swap 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, 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 swaps sold by the Fund. For the six months ended June 30, 2014, the Fund entered into credit default swap agreements to gain exposure to the underlying issuer's credit quality characteristics.

Under the terms of a credit default swap, the Fund receives or makes periodic 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 swap 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, 2014 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2014, the investment in credit default swap contracts sold had a total notional value of $125,000.

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, 2014, 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, 2014 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2014, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $7,994,000 to $32,712,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $5,641,000 to $57,469,000.

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. The Fund may write or purchase interest rate swaption agreements which are options to enter into a pre-defined swap agreement. 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. 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, 2014, the Fund entered into options 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 open written option contracts is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2014, the investment in written option contracts had a total value generally indicative of a range from approximately $133,000 to $204,000.

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, 2014, 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, 2014 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2014, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $12,710,000 to $30,883,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $4,127,000 to $29,316,000. 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 $7,981,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2014 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ —	$ 54,016	$ 134,354	$ 188,370
Credit Contracts (b)	—	11,423	—	11,423
Foreign Exchange Contracts (b)	63,947	—	—	63,947
	$ 63,947	**$ 65,439**	**$ 134,354**	**$ 263,740**

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

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

(b) Unrealized appreciation on swap contracts and forward foreign currency exchange contracts

Liability Derivatives	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a) (b)	$ (203,957)	$ —	$ (358,966)	$ (170,720)	$ (733,643)
Foreign Exchange Contracts (c)	—	(167,428)	—	—	(167,428)
	$ (203,957)	**$ (167,428)**	**$ (358,966)**	**$ (170,720)**	**$ (901,071)**

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

(a) Includes cumulative depreciation of futures and centrally cleared swap 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 bilateral 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, 2014 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a)	$ 89,880	$ —	$ (225,496)	$ 891,504	$ 755,888
Foreign Exchange Contracts (b)	—	471,015	—	—	471,015
	$ 89,880	**$ 471,015**	**$ (225,496)**	**$ 891,504**	**$ 1,226,903**

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

(a) Net realized gain (loss) from 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)	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a)	$ 2,060	$ —	$ (218,167)	$ (1,029,258)	$ (1,245,365)
Credit Contracts (a)	—	—	416	—	416
Foreign Exchange Contracts (b)	—	(327,074)	—	—	(327,074)
	$ 2,060	**$ (327,074)**	**$ (217,751)**	**$ (1,029,258)**	**$ (1,572,023)**

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

(a) Change in net unrealized appreciation (depreciation) on 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, 2014, 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	Financial Instruments and Derivatives Available for Offset	Cash Collateral Received	Non-Cash Collateral Received	Net Amount of Derivative Assets
Australia & New Zealand Banking Group Ltd	$ 18,812	$ (18,812)	$ —	$ —	$ —
Canadian Imperial Bank of Commerce	21,655	—	—	—	21,655
Commonwealth Bank of Australia	16,060	(4,149)	—	—	11,911
Macquarie Bank Ltd.	2,925	—	—	—	2,925
Nomura International PLC	395	(395)	—	—	—
Societe Generale	4,100	(4,100)	—	—	—
UBS AG	11,423	—	—	—	11,423
	$ 75,370	**$ (27,456)**	**$ —**	**$ —**	**$ 47,914**

Counterparty		Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities		Financial Instruments and Derivatives Available for Offset		Cash Collateral Pledged		Non-Cash Collateral Pledged (a)		Net Amount of Derivative Liabilities
Australia & New Zealand Banking Group Ltd	$	35,976	$	(18,812)	$	—	$	—	$	17,164
Barclays Bank PLC		54,311		—		—		—		54,311
BNP Paribas		80,489		—		—		—		80,489
Citigroup. Inc.		57,230		—		—		—		57,230
Commonwealth Bank of Australia		4,149		(4,149)		—		—		—
JPMorgan Chase Securities, Inc.		6,831		—		—		—		6,831
Nomura International PLC		97,475		(395)		—		(97,080)		—
Societe Generale		47,610		(4,100)		—		—		43,510
	$	**384,071**	**$**	**(27,456)**	**$**	**—**	**$**	**(97,080)**	**$**	**259,535**

(a) The actual collateral pledged may be more than the amount shown.

C. Purchases and Sales of Securities

During the six months ended June 30, 2014, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $122,953,106 and $149,623,066, respectively. Purchases and sales of U.S. Treasury obligations aggregated $7,226,065 and $5,474,811, respectively.

For the six months ended June 30, 2014, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount		Premium
Outstanding, beginning of period	26,600,000	$	280,210
Options written	12,000,000		132,074
Options closed	(6,300,000)		(74,392)
Options expired	(2,100,000)		(15,488)
Outstanding, end of period	**30,200,000**	**$**	**322,404**

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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate (exclusive of any applicable waivers/reimbursements) of 0.37% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 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 shares at 0.71%.

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, 2014, the Administration Fee was $131,319, of which $21,809 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2014, the amounts charged to the Fund by DSC aggregated $196, of which $97 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $10,263, of which $4,479 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 Deutsche 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 Deutsche 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 Deutsche 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 Deutsche 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, 2014, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $4,041.

E. Ownership of the Fund

At June 30, 2014, two participating insurance companies were owners of record of 10% or more of the total outstanding shares of the Fund, each owning 60% and 21%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

G. Fund Name Change

Effective August 11, 2014, the "DWS Funds" were rebranded "Deutsche Funds."

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, 2014 to June 30, 2014).

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, 2014

Actual Fund Return	**Class A**
Beginning Account Value 1/1/14	$1,000.00
Ending Account Value 6/30/14	$1,053.90
Expenses Paid per $1,000*	$ 3.11
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/14	$1,000.00
Ending Account Value 6/30/14	$1,021.77
Expenses Paid per $1,000*	$ 3.06

* 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**
Deutsche Variable Series II — Deutsche Global Income Builder VIP	.61%

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

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

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of DWS Global Income Builder VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2013.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2013, all but one of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Asset Allocation Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent Trustees were also advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG, a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

As part of the contract review process, the Board carefully considered the fees and expenses of each DWS fund overseen by the Board in light of the fund's performance. In many cases, this led to a negotiation with DIMA of lower expense caps as part of the 2012 and 2013 contract review processes than had previously been in place. As part of these negotiations, the Board indicated that it would consider relaxing these new lower caps in future years following sustained improvements in performance, among other considerations.

In June 2012, Deutsche Bank AG ("DB"), DIMA's parent company, announced that DB would combine its Asset Management (of which DIMA was a part) and Wealth Management divisions. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that it has, and will continue to, reinvest a significant portion of the substantial savings it expects to realize by combining its Asset Management and Wealth Management divisions into the new Asset and Wealth Management ("AWM") division, including ongoing enhancements to its investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the Fee

Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2012, the Fund's performance (Class A shares) was in the 2nd quartile, 2nd quartile and 3rd quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one- and three-year periods and has underperformed its benchmark in the five-year period ended December 31, 2012.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2012). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be lower than the median (1st quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2012, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable fund and considered differences between the Fund and the comparable fund. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive.

The information considered by the Board as part of its review of management fees included information regarding fees charged by DIMA and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DIMA's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and their independent counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Notes

Notes

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2GIB-3 (R-028382-3 8/14)

Deutsche Asset
& Wealth Management

June 30, 2014

Semiannual Report

Deutsche Variable Series I

(formerly DWS Variable Series I)

Deutsche Global Small Cap VIP

(formerly DWS Global Small Cap Growth 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 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.

Letter to Shareholders

Dear Shareholder:

I am very pleased to tell you that the DWS funds have been renamed Deutsche funds, aligning more closely with the Deutsche Asset & Wealth Management brand. We are proud to adopt the Deutsche name — a brand that fully represents the global access, discipline and intelligence that support all of our products and services.

Deutsche Asset & Wealth Management combines the asset management and wealth management divisions of Deutsche Bank to deliver a comprehensive suite of active, passive and alternative investment capabilities. Your investment in the Deutsche funds means you have access to the thought leadership and resources of one of the world's largest and most influential financial institutions.

In conjunction with your fund's name change, please note that the Deutsche funds' Web address has changed as well. The former dws-investments.com is now deutschefunds.com.

In addition, key service providers have been renamed as follows:

Former Name	New name, effective August 11, 2014
DWS Investments Distributors, Inc.	DeAWM Distributors, Inc.
DWS Trust Company	DeAWM Trust Company
DWS Investments Service Company	DeAWM Service Company

These changes have no effect on the day-to-day management of your investment, and there is no action required on your part. You will continue to experience the benefits that come from our decades of experience, in-depth research and worldwide network of investment professionals.

Thanks for your continued support. We appreciate your trust and the opportunity to put our capabilities to work for you.

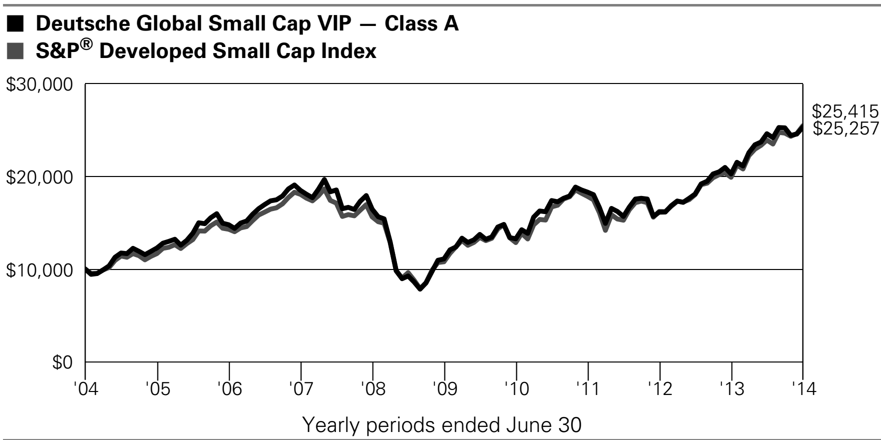
Best regards,

Brian Binder
President, Deutsche Funds

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, 2014 are 1.14% and 1.34% 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

Deutsche Global Small Cap VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,289	$12,490	$13,824	$22,780	$25,257
	Average annual total return	2.89%	24.90%	11.40%	17.90%	9.71%
S&P Developed Small Cap Index	Growth of $10,000	$10,648	$12,798	$14,267	$23,566	$25,415
	Average annual total return	6.48%	27.98%	12.58%	18.70%	9.78%

Deutsche Global Small Cap VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,277	$12,457	$13,720	$22,519	$24,650
	Average annual total return	2.77%	24.57%	11.12%	17.63%	9.44%
S&P Developed Small Cap Index	Growth of $10,000	$10,648	$12,798	$14,267	$23,566	$25,415
	Average annual total return	6.48%	27.98%	12.58%	18.70%	9.78%

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 excluding Securities Lending Collateral)	**6/30/14**	**12/31/13**
Common Stocks	98%	99%
Cash Equivalents	2%	1%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/14**	**12/31/13**
United States	43%	44%
Continental Europe	19%	18%
Asia (excluding Japan)	13%	11%
United Kingdom	12%	14%
Japan	7%	8%
Canada	3%	2%
Latin America	1%	1%
Australia	0%	0%
Other	2%	2%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/14**	**12/31/13**
Industrials	25%	25%
Consumer Discretionary	23%	23%
Financials	16%	17%
Health Care	14%	14%
Information Technology	10%	10%
Energy	5%	6%
Consumer Staples	5%	4%
Materials	2%	1%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Manager

Joseph Axtell, CFA
Portfolio Manager

	Shares	Value ($)
Common Stocks 97.0%		
Australia 0.4%		
Austal Ltd.* (Cost $696,239)	541,414	**653,473**
Bermuda 0.9%		
Lazard Ltd. "A" (a) (Cost $704,031)	28,744	**1,482,041**
Canada 2.5%		
Quebecor, Inc. "B"	68,168	1,649,499
SunOpta, Inc.*	158,500	2,231,680
(Cost $2,834,197)		**3,881,179**
China 1.4%		
Charm Communications, Inc. (ADR)*	98,491	443,209
Minth Group Ltd.	875,439	1,703,347
(Cost $1,318,430)		**2,146,556**
Cyprus 0.9%		
Prosafe SE (Cost $1,318,219)	165,815	**1,367,859**
Denmark 1.2%		
GN Store Nord AS (Cost $915,547)	66,118	**1,894,342**
Finland 0.8%		
Cramo Oyj (Cost $1,168,046)	53,392	**1,299,159**
France 2.1%		
Flamel Technologies SA (ADR)*	131,623	1,974,345
JC Decaux SA (b)	33,667	1,256,231
(Cost $2,033,790)		**3,230,576**
Germany 4.4%		
M.A.X. Automation AG	168,740	939,935
Patrizia Immobilien AG	63,794	847,325
Rational AG	3,657	1,182,028
United Internet AG (Registered)	61,105	2,692,117
Vib Vermoegen AG	65,560	1,243,333
(Cost $3,176,787)		**6,904,738**
Hong Kong 5.4%		
Hong Kong Television Network Ltd.*	1,264,391	398,059
K Wah International Holdings Ltd.	2,966,526	2,070,720
Playmates Toys Ltd.	3,094,492	1,177,842
REXLot Holdings Ltd. (b)	17,982,850	2,111,426
Sun Hung Kai & Co., Ltd.	1,436,654	1,143,703
Techtronic Industries Co., Ltd.	501,140	1,606,798
(Cost $5,298,408)		**8,508,548**
Indonesia 0.8%		
PT Arwana Citramulia Tbk (Cost $1,006,872)	14,521,519	**1,237,177**
Ireland 2.7%		
C&C Group PLC	152,623	949,844
Paddy Power PLC	21,457	1,410,292
Ryanair Holdings PLC*	202,146	1,912,678
(Cost $977,190)		**4,272,814**
Italy 0.8%		
Prysmian SpA (Cost $1,072,825)	55,487	**1,253,643**

	Shares	Value ($)
Japan 6.4%		
Ai Holdings Corp.	70,964	1,291,019
Avex Group Holdings, Inc.	72,313	1,274,159
Kusuri No Aoki Co., Ltd.	48,906	1,771,729
MISUMI Group, Inc.	27,828	765,576
Nippon Seiki Co., Ltd.	102,649	1,982,963
United Arrows Ltd.	28,219	1,137,896
Universal Entertainment Corp. (b)	49,078	870,571
UT Holdings Co., Ltd.	137,600	859,788
(Cost $7,320,242)		**9,953,701**
Malaysia 1.3%		
Hartalega Holdings Bhd.	548,989	1,061,732
Tune Ins Holdings Bhd.	1,359,962	961,418
(Cost $1,367,757)		**2,023,150**
Netherlands 4.1%		
Brunel International NV	49,148	1,434,465
Chicago Bridge & Iron Co. NV (c)	12,800	872,960
Constellium NV "A"* (c)	82,843	2,655,947
SBM Offshore NV*	88,716	1,431,628
(Cost $4,120,102)		**6,395,000**
Panama 0.7%		
Banco Latinoamericano de Comercio Exterior SA "E" (Cost $903,207)	37,637	**1,116,690**
Philippines 1.1%		
Alliance Global Group, Inc.	2,396,749	1,597,833
Century Properties Group, Inc.	1,877,780	58,506
House of Investments, Inc.	93,640	12,871
(Cost $870,488)		**1,669,210**
Singapore 1.7%		
Lian Beng Group Ltd.	3,250,348	1,811,686
UE E&C Ltd.	875,904	835,934
(Cost $1,877,905)		**2,647,620**
Switzerland 1.2%		
Dufry AG (Registered)* (b) (Cost $1,154,175)	9,898	**1,799,231**
Taiwan 0.6%		
Kinpo Electronics, Inc. (Cost $821,502)	2,042,529	**954,293**
Thailand 0.6%		
Malee Sampran PCL (Foreign Registered) (Cost $1,132,482)	676,472	**932,741**
United Kingdom 12.1%		
Arrow Global Group PLC*	363,026	1,428,950
Babcock International Group PLC	127,123	2,528,027
Clinigen Healthcare Ltd.	102,427	662,171
Crest Nicholson Holdings PLC	238,220	1,405,714
Domino's Pizza Group PLC	94,503	847,478
Hargreaves Lansdown PLC	68,051	1,441,805
HellermannTyton Group PLC	237,370	1,265,016
Howden Joinery Group PLC	217,474	1,152,285
IG Group Holdings PLC	109,476	1,100,723
Jardine Lloyd Thompson Group PLC	53,491	952,063

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

	Shares	Value ($)
John Wood Group PLC	79,643	1,099,268
Monitise PLC*	764,288	676,891
Nanoco Group PLC*	375,044	677,152
Polypipe Group PLC*	306,543	1,311,544
Rotork PLC	28,212	1,289,130
Spirax-Sarco Engineering PLC	21,443	1,002,944
(Cost $12,818,745)		**18,841,161**

United States 42.9%

	Shares	Value ($)
Advance Auto Parts, Inc.	10,602	1,430,422
Affiliated Managers Group, Inc.*	7,434	1,526,944
Altra Industrial Motion Corp.	29,532	1,074,669
BE Aerospace, Inc.*	16,382	1,515,171
Cancer Genetics, Inc.* (b)	50,318	568,593
Cardtronics, Inc.*	30,821	1,050,380
Chart Industries, Inc.* (b)	13,944	1,153,727
Cognex Corp.*	28,518	1,095,091
CONMED Corp.	21,163	934,346
Dresser-Rand Group, Inc.*	16,517	1,052,628
Encore Capital Group, Inc.* (b)	33,098	1,503,311
Financial Engines, Inc. (b)	14,433	653,526
Fox Factory Holding Corp.*	64,710	1,138,249
Furiex Pharmaceuticals, Inc.*	10,679	1,133,896
Gentherm, Inc.*	18,314	814,057
Hain Celestial Group, Inc.*	9,527	845,426
Harris Corp.	17,120	1,296,840
HeartWare International, Inc.*	12,111	1,071,824
Imperva, Inc.*	24,351	637,509
Jack in the Box, Inc.	17,646	1,055,937
Jarden Corp.*	19,627	1,164,862
Kindred Healthcare, Inc.	54,736	1,264,402
Leucadia National Corp.	48,574	1,273,610
Manitowoc Co., Inc. (b)	47,980	1,576,623
Middleby Corp.*	14,370	1,188,686
Molina Healthcare, Inc.* (b)	34,729	1,549,955
NOW, Inc.*	23,583	853,940
Oasis Petroleum, Inc.*	20,300	1,134,567
Ocwen Financial Corp.*	38,210	1,417,591
Oil States International, Inc.*	14,045	900,144
Orexigen Therapeutics, Inc.* (b)	83,992	519,071
Pacira Pharmaceuticals, Inc.*	9,772	897,656
PAREXEL International Corp.*	22,290	1,177,804
Primoris Services Corp.	41,564	1,198,706
Providence Service Corp.*	33,774	1,235,791
PTC, Inc.*	26,897	1,043,604
Retrophin, Inc.*	61,103	717,349
Roadrunner Transportation Systems, Inc.*	37,336	1,049,142
Sinclair Broadcast Group, Inc. "A" (b)	44,647	1,551,483
Sunesis Pharmaceuticals, Inc.* (b)	26,913	175,473
Sunshine Heart, Inc.*	129,438	724,853
Synta Pharmaceuticals Corp.*	110,127	450,419
Tenneco, Inc.*	26,716	1,755,241
The Bancorp., Inc.*	57,973	690,458
The WhiteWave Foods Co.*	34,965	1,131,817
Thoratec Corp.*	46,191	1,610,218
TIBCO Software, Inc.*	35,463	715,289
TiVo, Inc.*	78,441	1,012,673
TriNet Group, Inc.*	36,756	884,717
Tristate Capital Holdings, Inc.*	66,710	942,612
Ultra Clean Holdings, Inc.*	85,996	778,264
United Rentals, Inc.* (b)	18,668	1,955,100
Urban Outfitters, Inc.*	35,603	1,205,518
VeriFone Systems, Inc.*	42,654	1,567,535
WABCO Holdings, Inc.*	16,502	1,762,744
Waddell & Reed Financial, Inc. "A"	29,215	1,828,567
WageWorks, Inc.*	25,051	1,207,709
Zeltiq Aesthetics, Inc.*	96,953	1,472,716
Zions Bancorp. (b)	39,320	1,158,760
Zoe's Kitchen, Inc.* (b)	23,563	810,097
(Cost $46,718,496)		**67,108,312**
Total Common Stocks (Cost $101,625,682)		**151,573,214**

Warrants 0.1%

Malaysia 0.0%

	Shares	Value ($)
Hartalega Holdings Bhd., Expiration Date 5/29/2015* (Cost $0)	68,733	**44,951**

United States 0.1%

	Shares	Value ($)
Sunesis Pharmaceuticals, Inc., Series A, Expiration Date 3/31/2016*	26,913	76,702
Sunesis Pharmaceuticals, Inc., Series B, Expiration Date 3/31/2016*	26,913	54,499
(Cost $73,472)		**131,201**
Total Warrants (Cost $73,472)		**176,152**

Securities Lending Collateral 11.6%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.08% (d) (e) (Cost $18,140,495)	18,140,495	**18,140,495**

Cash Equivalents 2.3%

	Shares	Value ($)
Central Cash Management Fund, 0.06% (d) (Cost $3,583,294)	3,583,294	**3,583,294**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $123,422,943)†	111.0	**173,473,155**
Other Assets and Liabilities, Net	(11.0)	**(17,225,177)**
Net Assets	100.0	**156,247,978**

* Non-income producing security.

† The cost for federal income tax purposes was $124,754,929. At June 30, 2014, net unrealized appreciation for all securities based on tax cost was $48,718,226. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $54,344,037 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $5,625,811.

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

(b) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at June 30, 2014 amounted to $17,212,688, which is 11.0% of net assets.

(c) Listed on the New York Stock Exchange.

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

(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

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2014 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	$ —	$ 653,473	$ —	$ 653,473
Bermuda	1,482,041	—	—	1,482,041
Canada	3,881,179	—	—	3,881,179
China	443,209	1,703,347	—	2,146,556
Cyprus	—	1,367,859	—	1,367,859
Denmark	—	1,894,342	—	1,894,342
Finland	—	1,299,159	—	1,299,159
France	1,974,345	1,256,231	—	3,230,576
Germany	—	6,904,738	—	6,904,738
Hong Kong	—	8,508,548	—	8,508,548
Indonesia	—	1,237,177	—	1,237,177
Ireland	—	4,272,814	—	4,272,814
Italy	—	1,253,643	—	1,253,643
Japan	—	9,953,701	—	9,953,701
Malaysia	—	2,068,101	—	2,068,101
Netherlands	3,528,907	2,866,093	—	6,395,000
Panama	1,116,690	—	—	1,116,690
Philippines	—	1,669,210	—	1,669,210
Singapore	—	2,647,620	—	2,647,620
Switzerland	—	1,799,231	—	1,799,231
Taiwan	—	954,293	—	954,293
Thailand	—	932,741	—	932,741
United Kingdom	—	18,841,161	—	18,841,161
United States	67,239,513	—	—	67,239,513
Short-Term Investments (f)	21,723,789	—	—	21,723,789
Total	**$101,389,673**	**$ 72,083,482**	**$ —**	**$173,473,155**

There have been no transfers between fair value measurement levels during the period ended June 30, 2014.

(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, 2014 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $101,699,154) — including $17,212,688 of securities loaned	$	151,749,366
Investment in Daily Assets Fund Institutional (cost $18,140,495)*		18,140,495
Investment in Central Cash Management Fund (cost $3,583,294)		3,583,294
Total investments in securities, at value (cost $123,422,943)		173,473,155
Foreign currency, at value (cost $258,722)		261,003
Receivable for investments sold		2,224,405
Receivable for Fund shares sold		13,519
Dividends receivable		190,503
Interest receivable		5,055
Foreign taxes recoverable		105,765
Other assets		1,103
Total assets		176,274,508
Liabilities		
Payable upon return of securities loaned		18,140,495
Payable for investments purchased		1,614,918
Payable for Fund shares redeemed		102,644
Accrued management fee		94,988
Accrued Trustees' fees		131
Other accrued expenses and payables		73,354
Total liabilities		20,026,530
Net assets, at value	**$**	**156,247,978**
Net Assets Consist of		
Distributions in excess of net investment income		(598,800)
Net unrealized appreciation (depreciation) on:		
Investments		50,050,212
Foreign currency		8,884
Accumulated net realized gain (loss)		11,553,009
Paid-in capital		95,234,673
Net assets, at value	**$**	**156,247,978**
Class A		
Net Asset Value, offering and redemption price per share ($153,118,368 ÷ 9,768,622 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**15.67**
Class B		
Net Asset Value, offering and redemption price per share ($3,129,610 ÷ 203,945 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**15.35**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2014 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $57,354)	$	1,053,605
Income distributions — Central Cash Management Fund		1,023
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		36,141
Total income		1,090,769
Expenses:		
Management fee		684,742
Administration fee		76,937
Services to shareholders		1,464
Distribution service fee (Class B)		3,500
Record keeping fee (Class B)		172
Custodian fee		32,206
Professional fees		35,232
Reports to shareholders		15,810
Trustees' fees and expenses		3,620
Other		12,208
Total expenses before expense reductions		865,891
Expense reductions		(125,751)
Total expenses after expense reductions		740,140
Net investment income (loss)		**350,629**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		12,042,509
Foreign currency		53
		12,042,562
Change in net unrealized appreciation (depreciation) on:		
Investments		(8,017,865)
Foreign currency		3,241
		(8,014,624)
Net gain (loss)		**4,027,938**
Net increase (decrease) in net assets resulting from operations	**$**	**4,378,567**

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

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2014 (Unaudited)	Year Ended December 31, 2013
Operations:		
Net investment income (loss)	$ 350,629	$ 392,707
Net realized gain (loss)	12,042,562	17,021,484
Change in net unrealized appreciation (depreciation)	(8,014,624)	25,576,735
Net increase (decrease) in net assets resulting from operations	4,378,567	42,990,926
Distributions to shareholders from:		
Net investment income:		
Class A	(1,278,879)	(881,158)
Class B	(17,935)	(8,337)
Net realized gains:		
Class A	(16,572,319)	(9,356,181)
Class B	(315,539)	(145,558)
Total distributions	(18,184,672)	(10,391,234)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,186,843	7,422,087
Reinvestment of distributions	17,851,198	10,237,339
Payments for shares redeemed	(8,279,149)	(19,526,673)
Net increase (decrease) in net assets from Class A share transactions	12,758,892	(1,867,247)
Class B		
Proceeds from shares sold	665,585	496,180
Reinvestment of distributions	333,474	153,895
Payments for redeemed	(232,486)	(384,768)
Net increase (decrease) in net assets from Class B share transactions	766,573	265,307
Increase (decrease) in net assets	(280,640)	30,997,752
Net assets at beginning of period	156,528,618	125,530,866
Net assets at end of period (including distributions in excess of net investment income and undistributed net investment income of $598,800 and $347,385, respectively)	**$ 156,247,978**	**$ 156,528,618**

Other Information		
Class A		
Shares outstanding at beginning of period	8,893,756	8,977,791
Shares sold	189,533	479,388
Shares issued to shareholders in reinvestment of distributions	1,182,982	718,410
Shares redeemed	(497,649)	(1,281,833)
Net increase (decrease) in Class A shares	874,866	(84,035)
Shares outstanding at end of period	**9,768,622**	**8,893,756**
Class B		
Shares outstanding at beginning of period	154,023	136,607
Shares sold	41,598	32,424
Shares issued to shareholders in reinvestment of distributions	22,563	11,000
Shares redeemed	(14,239)	(26,008)
Net increase (decrease) in Class B shares	49,922	17,416
Shares outstanding at end of period	**203,945**	**154,023**

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

Financial Highlights

Class A	Six Months Ended 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$17.31**	**$13.78**	**$12.67**	**$14.28**	**$11.32**	**$ 7.79**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.04	.04	.09	.08	.05	.04
Net realized and unrealized gain (loss)	.37	4.66	1.83	(1.45)	2.96	3.64
Total from investment operations	.41	4.70	1.92	(1.37)	3.01	3.68
Less distributions from:						
Net investment income	(.15)	(.10)	(.09)	(.24)	(.05)	(.15)
Net realized gains	(1.90)	(1.07)	(.72)	—	—	—
Total distributions	(2.05)	(1.17)	(.81)	(.24)	(.05)	(.15)
Net asset value, end of period	**$15.67**	**$17.31**	**$13.78**	**$12.67**	**$14.28**	**$11.32**
Total Return (%)[b]	2.89**	35.94	15.37	(9.90)	26.64	48.20
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	153	154	124	123	158	139
Ratio of expenses before expense reductions (%)	1.12*	1.14	1.11	1.12	1.12	1.11
Ratio of expenses after expense reductions (%)	.96*	.94	.98	1.00	1.04	.99
Ratio of net investment income (loss) (%)	.46*	.28	.69	.57	.42	.47
Portfolio turnover rate (%)	23**	39	36	31	39	53

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 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$16.97**	**$13.52**	**$12.45**	**$14.03**	**$11.11**	**$ 7.65**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.02	.01	.06	.05	.03	.02
Net realized and unrealized gain (loss)	.37	4.57	1.79	(1.43)	2.90	3.57
Total from investment operations	.39	4.58	1.85	(1.38)	2.93	3.59
Less distributions from:						
Net investment income	(.11)	(.06)	(.06)	(.20)	(.01)	(.13)
Net realized gains	(1.90)	(1.07)	(.72)	—	—	—
Total distributions	(2.01)	(1.13)	(.78)	(.20)	(.01)	(.13)
Net asset value, end of period	**$15.35**	**$16.97**	**$13.52**	**$12.45**	**$14.03**	**$11.11**
Total Return (%)[b]	2.77**	35.67	15.01	(10.08)	26.38	47.66
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	3	3	2	2	2	7
Ratio of expenses before expense reductions (%)	1.39*	1.34	1.43	1.38	1.34	1.42
Ratio of expenses after expense reductions (%)	1.23*	1.15	1.23	1.25	1.26	1.30
Ratio of net investment income (loss) (%)	.22*	.07	.44	.32	.20	.16
Portfolio turnover rate (%)	23**	39	36	31	39	53

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

Deutsche Variable Series I (formerly 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: Deutsche Bond VIP, Deutsche Core Equity VIP, Deutsche Capital Growth VIP, Deutsche Global Small Cap VIP and Deutsche International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds" and formerly known as DWS Bond VIP, DWS Core Equity VIP, DWS Capital Growth VIP, DWS Global Small Cap Growth VIP and DWS International VIP, respectively). These financial statements report on Deutsche Global Small Cap 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities are generally categorized as Level 1 securities. 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 considered 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, 2014, the Fund had securities on loan. The value of the related collateral 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, 2013 and has determined that no provision for income tax and/or uncertain tax provisions 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 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 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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

B. Purchases and Sales of Securities

During the six months ended June 30, 2014, purchases and sales of investment securities (excluding short-term investments) aggregated $34,060,662 and $39,437,883, 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%

Accordingly, for the six months ended June 30, 2014, the fee pursuant to the Investment Management agreement was equivalent to an annualized effective rate (exclusive of any applicable waivers/reimbursements) of 0.89% of the Fund's average daily net assets.

For the period from January 1, 2013 through April 30, 2014, the Advisor had 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%

For the period from May 1, 2014 through April 30, 2015, the Advisor has contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.99%
Class B	1.38%

For the six months ended June 30, 2014, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 123,467
Class B	2,284
	$ 125,751

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, 2014, the Administration Fee was $76,937, of which $12,697 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2014, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2014
Class A	$ 211	$ 104
Class B	106	73
	$ 317	**$ 177**

Distribution Service Agreement. DeAWM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Series' Distributor. In accordance with the Master Distribution Plan, DDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, DDI 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, 2014, the Distribution Service Fee aggregated $3,500, of which $628 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $7,422, of which $1,076 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 Deutsche 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 Deutsche 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 Deutsche 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 Deutsche 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, 2014, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $3,189.

D. Ownership of the Fund

At June 30, 2014, four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 52%, 15%, 10% and 10%, respectively. Three participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 67%, 18% and 11%, respectively.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

F. Fund Name Change

Effective August 11, 2014, the "DWS Funds" were rebranded "Deutsche Funds."

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, 2014 to June 30, 2014).

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, 2014

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,028,90	$1,027.70
Expenses Paid per $1,000*	$ 4.83	$ 6.18
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,020.03	$1,018.70
Expenses Paid per $1,000*	$ 4.81	$ 6.16

* 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**
Deutsche Variable Series I — Deutsche Global Small Cap VIP	.96%	1.23%

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 the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting"at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of DWS Global Small Cap VIP's (formerly DWS Global Small Cap Growth VIP's) investment management agreement (the “Agreement”) with Deutsche Investment Management Americas Inc. (“DIMA”) in September 2013.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2013, all of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the “Fee Consultant”). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent Trustees were also advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG, a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

As part of the contract review process, the Board carefully considered the fees and expenses of each DWS fund overseen by the Board in light of the fund's performance. In many cases, this led to a negotiation with DIMA of lower expense caps as part of the 2012 and 2013 contract review processes than had previously been in place. As part of these negotiations, the Board indicated that it would consider relaxing these new lower caps in future years following sustained improvements in performance, among other considerations.

In June 2012, Deutsche Bank AG (“DB”), DIMA's parent company, announced that DB would combine its Asset Management (of which DIMA was a part) and Wealth Management divisions. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that it has, and will continue to, reinvest a significant portion of the substantial savings it expects to realize by combining its Asset Management and Wealth Management divisions into the new Asset and Wealth Management (“AWM”) division, including ongoing enhancements to its investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the Fee

Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2012, the Fund's performance (Class A shares) was in the 4th quartile, 1st quartile and 3rd quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2012. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board observed that the Fund had experienced improved relative performance during the first seven months of 2013. The Board recognized the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the DWS fund complex.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were higher than the median (4th quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2012). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2012) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size).

The Board also noted that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive.

The information considered by the Board as part of its review of management fees included information regarding fees charged by DIMA and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the

Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DIMA's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and their independent counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Notes

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS1gloscg-3 (R-028377-3 8/14)

Deutsche Asset
& Wealth Management

June 30, 2014

Semiannual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche Government & Agency Securities VIP

(formerly DWS Government & Agency Securities 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. 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.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

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

Letter to Shareholders

Dear Shareholder:

I am very pleased to tell you that the DWS funds have been renamed Deutsche funds, aligning more closely with the Deutsche Asset & Wealth Management brand. We are proud to adopt the Deutsche name — a brand that fully represents the global access, discipline and intelligence that support all of our products and services.

Deutsche Asset & Wealth Management combines the asset management and wealth management divisions of Deutsche Bank to deliver a comprehensive suite of active, passive and alternative investment capabilities. Your investment in the Deutsche funds means you have access to the thought leadership and resources of one of the world's largest and most influential financial institutions.

In conjunction with your fund's name change, please note that the Deutsche funds' Web address has changed as well. The former dws-investments.com is now deutschefunds.com.

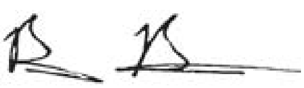
In addition, key service providers have been renamed as follows:

Former Name	New name, effective August 11, 2014
DWS Investments Distributors, Inc.	DeAWM Distributors, Inc.
DWS Trust Company	DeAWM Trust Company
DWS Investments Service Company	DeAWM Service Company

These changes have no effect on the day-to-day management of your investment, and there is no action required on your part. You will continue to experience the benefits that come from our decades of experience, in-depth research and worldwide network of investment professionals.

Thanks for your continued support. We appreciate your trust and the opportunity to put our capabilities to work for you.

Best regards,



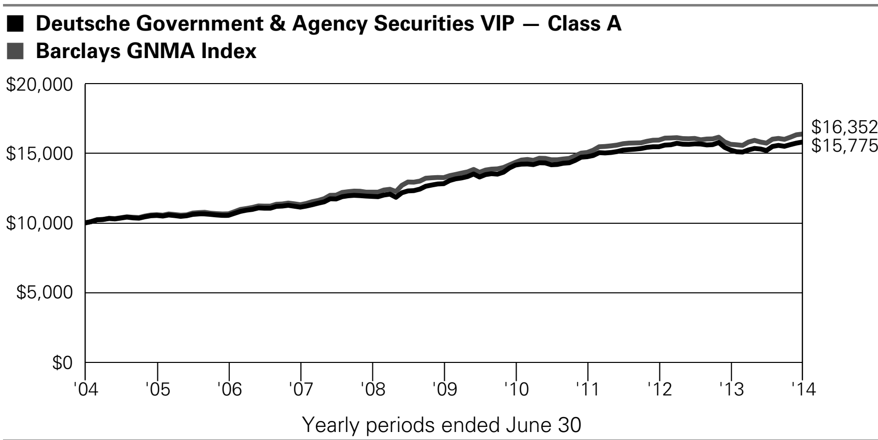
Brian Binder
President, Deutsche Funds

Performance Summary

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, 2014 are 0.71% and 1.06% 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 Deutsche 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

Deutsche Government & Agency Securities VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,396	$10,377	$10,709	$12,319	$15,775
	Average annual total return	3.96%	3.77%	2.31%	4.26%	4.66%
Barclays GNMA Index	Growth of $10,000	$10,414	$10,474	$10,881	$12,360	$16,352
	Average annual total return	4.14%	4.74%	2.86%	4.33%	5.04%

Deutsche Government & Agency Securities VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,371	$10,335	$10,598	$12,104	$15,208
	Average annual total return	3.71%	3.35%	1.95%	3.89%	4.28%
Barclays GNMA Index	Growth of $10,000	$10,414	$10,474	$10,881	$12,360	$16,352
	Average annual total return	4.14%	4.74%	2.86%	4.33%	5.04%

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 Net Assets)	**6/30/14**	**12/31/13**
Mortgage-Backed Securities Pass-Throughs	89%	89%
Collateralized Mortgage Obligations	20%	15%
Government & Agency Obligations	17%	21%
Cash Equivalents and Other Assets and Liabilities, net	–26%	–25%
	100%	100%

Coupons*	**6/30/14**	**12/31/13**
Less than 4.5%	33%	32%
4.5%–5.49%	45%	43%
5.5%–6.49%	19%	21%
6.5%–7.49%	2%	3%
7.5% and Greater	1%	1%
	100%	100%

Interest Rate Sensitivity	**6/30/14**	**12/31/13**
Effective Maturity	6.6 years	10.0 years
Effective Duration	6.4 years	6.3 years

* Excludes Cash Equivalents, Securities Lending Collateral, 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 6.

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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management Team

William Chepolis, CFA
Scott Agi, CFA
Portfolio Managers

	Principal Amount ($)	Value ($)
Mortgage-Backed Securities Pass-Throughs 89.0%		
Federal Home Loan Mortgage Corp., 4.0%, 8/1/2041 (a)	9,000,000	9,534,726
Federal National Mortgage Association, 4.5%, 1/1/2040 (a)	8,000,000	8,665,000
Government National Mortgage Association:		
3.5%, with various maturities from 2/15/2043 until 3/20/2043	4,563,172	4,758,914
4.0%, with various maturities from 9/20/2040 until 6/20/2043 (a)	13,251,002	14,193,652
4.5%, with various maturities from 6/20/2033 until 2/20/2043 (a)	11,420,181	12,482,195
4.55%, 1/15/2041	386,519	423,839
4.625%, 5/15/2041	194,030	213,796
5.0%, with various maturities from 11/20/2032 until 4/15/2042	14,184,328	15,735,637
5.5%, with various maturities from 10/15/2032 until 7/20/2040	7,644,729	8,594,265
6.0%, with various maturities from 2/15/2034 until 5/15/2040	7,697,683	8,703,536
6.5%, with various maturities from 9/15/2036 until 2/15/2039	945,659	1,069,613
7.0%, with various maturities from 2/20/2027 until 11/15/2038	222,687	258,708
7.5%, 10/20/2031	7,524	9,040
Total Mortgage-Backed Securities Pass-Throughs (Cost $82,974,335)		**84,642,921**

Collateralized Mortgage Obligations 19.6%

	Principal Amount ($)	Value ($)
Federal Home Loan Mortgage Corp.:		
"OA", Series 3179, Principal Only, Zero Coupon, 7/15/2036	192,964	180,262
"KO", Series 4180, Principal Only, Zero Coupon, 1/15/2043	1,367,587	813,590
"KB", Series 4144, 2.5%, 12/15/2042	214,837	181,527
"YI", Series 3936, Interest Only, 3.0%, 6/15/2025	109,073	8,278
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025	1,204,739	115,723
"WI", Series 3939, Interest Only, 3.0%, 10/15/2025	435,107	34,744
"EI", Series 3953, Interest Only, 3.0%, 11/15/2025	620,642	58,116
"IO", Series 3974, Interest Only, 3.0%, 12/15/2025	194,322	17,741
"DI", Series 4010, Interest Only, 3.0%, 2/15/2027	157,342	15,684
"IK", Series 4048, Interest Only, 3.0%, 5/15/2027	1,497,754	193,474
"PZ", Series 4094, 3.0%, 8/15/2042	408,574	358,956
"IK", Series 3754, Interest Only, 3.5%, 6/15/2025	919,360	94,064
"DZ", Series 4199, 3.5%, 5/15/2043	242,880	225,647
"ZG", Series 4213, 3.5%, 6/15/2043	361,429	361,736
"KZ", Series 4328, 4.0%, 4/15/2044	336,007	347,449
"UA", Series 4298, 4.0%, 2/15/2054	483,677	495,558
"22", Series 243, Interest Only, 4.482%*, 6/15/2021	474,322	26,662
"NI", Series 3657, Interest Only, 4.5%, 8/15/2027	260,262	5,657
"PI", Series 2535, Interest Only, 6.0%, 9/15/2032	82,020	1,745
"MI", Series 3871, Interest Only, 6.0%, 4/15/2040	143,404	20,559
"A", Series 172, Interest Only, 6.5%, 1/1/2024	20,172	3,722
"DS", Series 3199, Interest Only, 6.998%*, 8/15/2036	2,037,385	416,711
"S", Series 2416, Interest Only, 7.948%*, 2/15/2032	273,416	60,994
"ST", Series 2411, Interest Only, 8.598%*, 6/15/2021	698,057	70,183
"KS", Series 2064, Interest Only, 9.998%*, 5/15/2022	276,598	64,985
Federal National Mortgage Association:		
"DI", Series 2011-136, Interest Only, 3.0%, 1/25/2026	182,705	17,581
"LZ", Series 2013-45, 3.0%, 5/25/2043	1,035,574	879,652
"DZ", Series 2013-136, 3.0%, 1/25/2044	812,075	667,377
"HI", Series 2010-123, Interest Only, 3.5%, 3/25/2024	326,241	23,688
"KI", Series 2011-72, Interest Only, 3.5%, 3/25/2025	994,175	69,401
''IO", Series 2012-146, Interest Only, 3.5%, 1/25/2043	2,057,103	476,296
"ZB", Series 2010-136, 4.0%, 12/25/2040	375,182	391,203
"AZ", Series 2012-29, 4.0%, 4/25/2042	1,452,740	1,455,430
"HZ", Series 2013-20, 4.0%, 3/25/2043	1,522,709	1,504,726
"25", Series 351, Interest Only, 4.5%, 5/1/2019	146,271	11,158
"HI", Series 2009-77, Interest Only, 4.5%, 9/25/2027	36,889	132
"IN", Series 2003-49, Interest Only, 4.75%, 3/25/2018	696,299	22,209
"21", Series 334, Interest Only, 5.0%, 3/1/2018	62,734	4,157
"20", Series 334, Interest Only, 5.0%, 3/1/2018	99,208	6,725
''23", Series 339, Interest Only, 5.0%, 6/25/2018	141,233	9,572
"26", Series 381, Interest Only, 5.0%, 12/25/2020	47,051	4,451
"ZA", Series 2008-24, 5.0%, 4/25/2038	717,131	776,597
"30", Series 381, Interest Only, 5.5%, 11/25/2019	273,138	27,516
"PI", Series 2009-14, Interest Only, 5.5%, 3/25/2024	464,976	63,981
"PJ", Series 2004-46, Interest Only, 5.848%*, 3/25/2034	341,369	45,217

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

	Principal Amount ($)	Value ($)
"WI", Series 2011-59, Interest Only, 6.0%, 5/25/2040	295,990	31,946
"101", Series 383, Interest Only, 6.5%, 9/25/2022	936,928	144,892
"SJ", Series 2007-36, Interest Only, 6.618%*, 4/25/2037	191,610	30,665
"KI", Series 2005-65, Interest Only, 6.848%*, 8/25/2035	93,199	17,957
"SA", Series G92-57, IOette, 83.384%*, 10/25/2022	34,789	69,627
Government National Mortgage Association:		
"BI", Series 2014-22, Interest Only, 4.0%, 2/20/2029	1,161,602	160,057
"JY", Series 2010-20, 4.0%, 12/20/2033	2,054,453	2,178,783
"LI", Series 2009-104, Interest Only, 4.5%, 12/16/2018	190,053	12,875
"NI", Series 2010-44, Interest Only, 4.5%, 10/20/2037	522,423	45,497
"CI", Series 2010-87, Interest Only, 4.5%, 11/20/2038	1,251,588	323,859
"MI", Series 2010-169, Interest Only, 4.5%, 8/20/2040	725,049	107,639
"GZ", Series 2005-24, 5.0%, 3/20/2035	531,482	599,552
"MI", Series 2009-76, Interest Only, 5.0%, 3/20/2035	45,517	56
"ZA", Series 2005-75, 5.0%, 10/16/2035	597,909	673,452
"MZ", Series 2009-98, 5.0%, 10/16/2039	1,072,862	1,272,690
"Z", Series 2009-112, 5.0%, 11/20/2039	1,256,953	1,391,542
"AI", Series 2008-46, Interest Only, 5.5%, 5/16/2023	195,880	16,661
"GI", Series 2003-19, Interest Only, 5.5%, 3/16/2033	749,773	151,183
"IB", Series 2010-130, Interest Only, 5.5%, 2/20/2038	226,173	40,855
"BS", Series 2011-93, Interest Only, 5.948%*, 7/16/2041	1,147,962	171,363
"MS", Series 2012-118, Interest Only, 5.997%, 9/20/2042*	597,978	80,797
"DI", Series 2009-10, Interest Only, 6.0%, 4/16/2038	293,729	50,904
"SA", Series 2012-84, Interest Only, 6.147%*, 12/20/2038	1,347,793	203,045
"QA", Series 2007-57, Interest Only, 6.347%*, 10/20/2037	287,137	41,828
"IP", Series 2009-118, Interest Only, 6.5%, 12/16/2039	83,079	15,733
"IC", Series 1997-4, Interest Only, 7.5%, 3/16/2027	543,621	139,137
"SK", Series 2003-11, Interest Only, 7.548%*, 2/16/2033	457,050	79,420
Total Collateralized Mortgage Obligations (Cost $17,272,133)		**18,682,851**

	Principal Amount ($)	Value ($)
Government & Agency Obligations 17.4%		
U.S. Government Sponsored Agency 10.5%		
Federal Home Loan Bank, 0.875%, 5/24/2017	10,000,000	**10,003,989**
U.S. Treasury Obligations 6.9%		
U.S. Treasury Bill, 0.065%**, 8/14/2014 (b)	1,045,000	1,044,972
U.S. Treasury Notes:		
1.0%, 8/31/2016 (c)	3,450,000	3,485,576
1.0%, 9/30/2016	2,000,000	2,019,376
		6,549,924
Total Government & Agency Obligations (Cost $16,529,962)		**16,553,913**

	Contract Amount	Value ($)
Call Options Purchased 0.2%		
Options on Interest Rate Swap Contracts		
Pay Fixed Rate — 3.72% – Receive Floating — LIBOR, Swap Expiration Date 4/22/2026, Option Expiration Date 4/20/2016[1]	2,600,000	56,132
Pay Fixed Rate — 4.32% – Receive Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[2]	6,000,000	120,378
Total Call Options Purchased (Cost $390,446)		**176,510**
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[2] (Cost $203,884)	6,000,000	**57,642**

	Shares	Value ($)
Securities Lending Collateral 8.5%		
Daily Assets Fund Institutional, 0.08% (d) (e) (Cost $8,080,000)	8,080,000	**8,080,000**
Cash Equivalents 0.4%		
Central Cash Management Fund, 0.06% (d) (Cost $412,815)	412,815	**412,815**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $125,863,575)†	135.2	**128,606,652**
Other Assets and Liabilities, Net (f)	(35.2)	**(33,492,429)**
Net Assets	100.0	**95,114,223**

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

* These securities are shown at their current rate as of June 30, 2014.

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

† The cost for federal income tax purposes was $125,926,867. At June 30, 2014, net unrealized appreciation for all securities based on tax cost was $2,679,785. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $4,151,015 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,471,230.

(a) When-issued or delayed delivery securities included.

(b) At June 30, 2014, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(c) At June 30, 2014, this security has been pledged, in whole or in part, as collateral for open over-the-counter derivatives.

(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.

(f) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at June 30, 2014 amounted to $7,939,230, which is 8.3% of net assets.

Interest Only: Interest Only (IO) bonds represent the "interest only" portion of payments on a pool of underlying mortgages or mortgage-backed securities. IO securities are subject to prepayment risk of the pool of underlying mortgages.

IOettes: These securities represent the right to receive interest payments on an underlying pool of mortgages with similar features as those associated with IO securities. Unlike IO's, a nominal amount of principal is assigned to an IOette which is small in relation to the interest flow that constitutes almost all of the IOette cash flow. The effective yield of this security is lower than the stated interest rate.

LIBOR: London Interbank Offered Rate

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

Included in the portfolio are investments in mortgage- or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Government National Mortgage Association issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

At June 30, 2014, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
10 Year Interest Rate Swap	USD	9/15/2014	35	3,675,547	35,124
10 Year U.S. Treasury Note	USD	9/19/2014	5	625,859	1,406
5 Year U.S. Treasury Note	USD	9/30/2014	36	4,300,594	12,026
Total unrealized appreciation					**48,556**

At June 30, 2014, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
U.S. Treasury Long Bond	USD	9/19/2014	65	8,917,188	**(97,868)**

Currency Abbreviation	
USD	United States Dollar

At June 30, 2014, open written options contracts were as follows:

Options on Interest Rate Swap Contracts	Swap Effective/ Expiration Dates	Contract Amount	Option Expiration Date	Premiums Received ($)	Value ($) (g)
Call Options					
Receive Fixed — 4.48% – Pay Floating — LIBOR	5/11/2016 5/11/2026	2,400,000[1]	5/5/2016	26,940	(20,708)
Receive Fixed — 3.32% – Pay Floating — LIBOR	2/3/2017 2/3/2027	3,000,000[2]	2/1/2017	216,990	(152,311)
Receive Fixed — 4.22% – Pay Floating — LIBOR	4/22/2016 4/22/2026	2,600,000[1]	4/20/2016	92,690	(29,790)
Receive Fixed — 5.132% – Pay Floating — LIBOR	3/17/2016 3/17/2026	2,400,000[1]	3/15/2016	17,340	(6,335)
Receive Fixed — 5.132% – Pay Floating — LIBOR	3/17/2016 3/17/2026	2,400,000[2]	3/15/2016	28,320	(6,335)
Total Call Options				**382,280**	**(215,479)**

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

Options on Interest Rate Swap Contracts	Swap Effective/ Expiration Dates	Contract Amount	Option Expiration Date	Premiums Received ($)	Value ($) (g)
Put Options					
Pay Fixed — 1.132% – Receive Floating — LIBOR	3/17/2016 3/17/2026	2,400,000[1]	3/15/2016	17,341	(676)
Pay Fixed — 1.132% – Receive Floating — LIBOR	3/17/2016 3/17/2026	2,400,000[2]	3/15/2016	6,120	(676)
Pay Fixed — 2.480% – Receive Floating — LIBOR	5/11/2016 5/11/2026	2,400,000[1]	5/5/2016	26,940	(25,173)
Pay Fixed — 2.796% – Receive Floating — LIBOR	6/5/2015 6/5/2045	2,200,000[2]	6/3/2015	23,540	(18,827)
Pay Fixed — 3.005% – Receive Floating — LIBOR	3/6/2015 3/6/2045	2,200,000[1]	3/4/2015	23,100	(25,386)
Pay Fixed — 3.033% – Receive Floating — LIBOR	10/24/2014 10/24/2044	1,900,000[3]	10/22/2014	24,130	(10,697)
Pay Fixed — 3.035% – Receive Floating — LIBOR	2/15/2015 2/3/2045	2,200,000[2]	1/30/2015	27,170	(25,098)
Pay Fixed — 3.088% – Receive Floating — LIBOR	1/28/2015 1/28/2045	2,400,000[4]	1/26/2015	24,210	(31,631)
Pay Fixed — 3.093% – Receive Floating — LIBOR	10/21/2014 10/21/2044	1,900,000[2]	10/17/2014	26,220	(14,122)
Pay Fixed — 3.32% – Receive Floating — LIBOR	2/3/2017 2/3/2027	3,000,000[2]	2/1/2017	216,990	(110,081)
Total Put Options				**415,761**	**(262,367)**
Total				**798,041**	**(477,846)**

(g) Unrealized appreciation on written options on interest rate swap contracts at June 30, 2014 was $320,195.

At June 30, 2014, open interest rate swap contracts were as follows:

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Unrealized Depreciation ($)
6/3/2014 6/3/2025	2,300,000	Fixed — 3.0%	Floating — LIBOR	(69,202)	(65,846)
12/30/2014 12/30/2016	23,200,000	Fixed — 1.173%	Floating — LIBOR	(119,146)	(121,564)
12/30/2014 12/30/2019	400,000	Fixed — 2.522%	Floating — LIBOR	(10,146)	(10,489)
12/30/2014 12/30/2034	1,600,000	Fixed — 4.01%	Floating — LIBOR	(171,149)	(171,624)
12/30/2014 12/30/2044	1,400,000	Fixed — 4.081%	Floating — LIBOR	(186,471)	(211,067)
5/11/2015 5/11/2045	2,400,000	Fixed — 3.56%	Floating — LIBOR	(50,476)	(49,116)
Total unrealized depreciation					**(629,706)**

Bilateral Swaps

Effective/ Expiration Dates	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Depreciation ($)
6/3/2013 6/3/2025	2,300,000[1]	Floating — LIBOR	Fixed — 3.0%	(13,895)	—	**(13,895)**

Counterparties:

1 Nomura International PLC

2 BNP Paribas

3 Citigroup, Inc.

4 Barclays Bank PLC

For information on the Fund's policy and additional disclosures regarding futures contracts, purchased and written options contracts, and interest rate swap 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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2014 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Fixed-Income Investments (h)				
Mortgage-Backed Securities Pass-Throughs	$ —	$ 84,642,921	$ —	$ 84,642,921
Collateralized Mortgage Obligations	—	18,682,851	—	18,682,851
Government & Agency Obligations	—	16,553,913	—	16,553,913
Short-Term Investments	8,492,815	—	—	8,492,815
Derivatives (i)				
Purchased Options	—	234,152	—	234,152
Futures Contracts	48,556	—	—	48,556
Total	**$ 8,541,371**	**$120,113,837**	**$ —**	**$128,655,208**

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives (i)				
Futures Contracts	$ (97,868)	$ —	$ —	$ (97,868)
Written Options	—	(477,846)	—	(477,846)
Interest Rate Swap Contracts	—	(643,601)	—	(643,601)
Total	**$ (97,868)**	**$ (1,121,447)**	**$ —**	**$ (1,219,315)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2014.

(h) See Investment Portfolio for additional detailed categorizations.

(i) 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, 2014 (Unaudited)

Assets		
Investments		
Investments in non-affiliated securities, at value (cost $117,370,760) — including $7,939,230 of securities loaned	$	120,113,837
Investment in Daily Assets Fund Institutional (cost $8,080,000)*		8,080,000
Investment in Central Cash Management Fund (cost $412,815)		412,815
Total investments in securities, at value (cost $125,863,575)		128,606,652
Receivable for investments sold		14,209,193
Receivable for investments sold — when-issued/delayed delivery securities		28,556,219
Receivable for Fund shares sold		2,049
Interest receivable		420,173
Other assets		1,394
Total assets		171,795,680
Liabilities		
Payable upon return of securities loaned		8,080,000
Payable for investments purchased		9,993,625
Payable for investments purchased — when-issued/delayed delivery securities		57,886,045
Payable for Fund shares redeemed		75,231
Payable for variation margin on centrally cleared swaps		36,842
Payable for variation margin on futures contracts		8,251
Options written, at value (premium received $798,041)		477,846
Unrealized depreciation on bilateral swap contracts		13,895
Accrued management fee		35,304
Accrued Trustees' fees		751
Other accrued expenses and payables		73,667
Total liabilities		76,681,457
Net assets, at value	**$**	**95,114,223**
Net Assets Consist of		
Undistributed net investment income		1,142,061
Unrealized appreciation (depreciation) on:		
Investments		2,743,077
Swap contracts		(643,601)
Futures		(49,312)
Written options		320,195
Accumulated net realized gain (loss)		500,459
Paid-in capital		91,101,344
Net assets, at value	**$**	**95,114,223**
Class A		
Net Asset Value, offering and redemption price per share ($91,796,470 ÷ 7,878,280 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.65**
Class B		
Net Asset Value, offering and redemption price per share ($3,317,753 ÷ 284,654 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.66**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2014 (Unaudited)

Investment Income		
Income:		
Interest	$	1,530,649
Income distributions — Central Cash Management Fund		2,428
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		3,112
Total income		1,536,189
Expenses:		
Management fee		219,931
Administration fee		48,874
Services to shareholders		695
Distribution service fees (Class B)		4,273
Record keeping fees (Class B)		1,575
Custodian fee		18,464
Professional fees		40,444
Reports to shareholders		16,626
Trustees' fees and expenses		3,107
Other		5,464
Total expenses before expense reductions		359,453
Expense reductions		(18,239)
Total expenses after expense reductions		341,214
Net investment income		**1,194,975**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		1,279,998
Swap contracts		(292,770)
Futures		(479,573)
Written options		102,720
		610,375
Change in net unrealized appreciation (depreciation) on:		
Investments		2,115,269
Swap contracts		(522,151)
Futures		214,266
Written options		226,931
		2,034,315
Net gain (loss)		**2,644,690**
Net increase (decrease) in net assets resulting from operations	**$**	**3,839,665**

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, 2014 (Unaudited)	Year Ended December 31, 2013
Operations:		
Net investment income	$ 1,194,975	$ 2,293,792
Net realized gain (loss)	610,375	(119,888)
Change in net unrealized appreciation (depreciation)	2,034,315	(5,696,113)
Net increase (decrease) in net assets resulting from operations	3,839,665	(3,522,209)
Distributions to shareholders from:		
Net investment income:		
Class A	(2,179,180)	(3,325,537)
Class B	(66,035)	(119,146)
Net realized gain:		
Class A	—	(4,523,083)
Class B	—	(185,024)
Total distributions	(2,245,215)	(8,152,790)
Fund share transactions:		
Class A		
Proceeds from shares sold	5,901,523	9,306,924
Reinvestment of distributions	2,179,180	7,848,620
Payments for shares redeemed	(13,352,904)	(31,059,765)
Net increase (decrease) in net assets from Class A share transactions	(5,272,201)	(13,904,221)
Class B		
Proceeds from shares sold	169,269	311,619
Reinvestment of distributions	66,035	304,170
Payments for shares redeemed	(614,425)	(1,961,191)
Net increase (decrease) in net assets from Class B share transactions	(379,121)	(1,345,402)
Increase (decrease) in net assets	(4,056,872)	(26,924,622)
Net assets at beginning of period	99,171,095	126,095,717
Net assets at end of period (including undistributed net investment income of $1,142,061 and $2,192,301, respectively)	**$ 95,114,223**	**$ 99,171,095**

Other Information		
Class A		
Shares outstanding at beginning of period	8,328,640	9,511,241
Shares sold	505,374	782,217
Shares issued to shareholders in reinvestment of distributions	189,659	660,658
Shares redeemed	(1,145,393)	(2,625,476)
Net increase (decrease) in Class A shares	(450,360)	(1,182,601)
Shares outstanding at end of period	**7,878,280**	**8,328,640**
Class B		
Shares outstanding at beginning of period	317,145	428,962
Shares sold	14,600	26,355
Shares issued to shareholders in reinvestment of distributions	5,742	25,582
Shares redeemed	(52,833)	(163,754)
Net increase (decrease) in Class B shares	(32,491)	(111,817)
Shares outstanding at end of period	**284,654**	**317,145**

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

Financial Highlights

Class A	Six Months Ended 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$11.47**	**$12.69**	**$13.12**	**$12.98**	**$12.78**	**$12.40**
Income (loss) from investment operations:						
Net investment income[a]	.14	.24	.34	.48	.50	.52
Net realized and unrealized gain (loss)	.31	(.59)	.03	.45	.32	.45
Total from investment operations	.45	(.35)	.37	.93	.82	.97
Less distributions from:						
Net investment income	(.27)	(.37)	(.52)	(.57)	(.62)	(.59)
Net realized gains	—	(.50)	(.28)	(.22)	—	—
Total distributions	(.27)	(.87)	(.80)	(.79)	(.62)	(.59)
Net asset value, end of period	**$11.65**	**$11.47**	**$12.69**	**$13.12**	**$12.98**	**$12.78**
Total Return (%)	3.96[b]**	(3.04)[b]	2.93[b]	7.46	6.61	8.08
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	92	96	121	146	157	169
Ratio of expenses before expense reductions (%)	.72*	.71	.68	.67	.64	.58
Ratio of expenses after expense reductions (%)	.69*	.67	.66	.67	.64	.58
Ratio of net investment income (%)	2.46*	2.05	2.65	3.68	3.86	4.16
Portfolio turnover rate (%)	301**	794	796	673	423	390

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 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$11.46**	**$12.67**	**$13.10**	**$12.95**	**$12.75**	**$12.37**
Income (loss) from investment operations:						
Net investment income[a]	.12	.20	.29	.43	.46	.48
Net realized and unrealized gain (loss)	.31	(.59)	.03	.46	.31	.45
Total from investment operations	.43	(.39)	.32	.89	.77	.93
Less distributions from:						
Net investment income	(.23)	(.32)	(.47)	(.52)	(.57)	(.55)
Net realized gains	—	(.50)	(.28)	(.22)	—	—
Total distributions	(.23)	(.82)	(.75)	(.74)	(.57)	(.55)
Net asset value, end of period	**$11.66**	**$11.46**	**$12.67**	**$13.10**	**$12.95**	**$12.75**
Total Return (%)	3.71[b]**	(3.25)[b]	2.48[b]	7.15	6.24	7.70
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	3	4	5	7	6	7
Ratio of expenses before expense reductions (%)	1.07*	1.06	1.03	1.01	.99	.92
Ratio of expenses after expense reductions (%)	1.01*	.99	1.01	1.01	.99	.92
Ratio of net investment income (%)	2.13*	1.71	2.29	3.34	3.51	3.81
Portfolio turnover rate (%)	301**	794	796	673	423	390

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

Deutsche Government & Agency Securities VIP (formerly DWS Government & Agency Securities VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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 average of the most recent reliable bid quotation or evaluated price, as applicable, obtained from 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 considered 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, 2014, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities on loan at period end.

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. Additionally, the Fund may be required to post securities and/or cash collateral in accordance with the terms 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.

At December 31, 2013, the Fund had a net tax basis capital loss carryforward of $310,000 of short-term losses, which may be applied against any realized net taxable capital gains indefinitely.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2013 and has determined that no provision for income tax and/or uncertain tax provisions 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. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes for the Fund.

B. Derivative Instruments

Swaps. A swap is a contract between two parties to exchange future cash flows at periodic intervals based on the notional amount of the swap. A bilateral swap is a transaction between the fund and a counterparty where cash flows are exchanged between the two parties. A centrally cleared swap is a transaction executed between the fund and a counterparty, then cleared by a clearing member through a central clearinghouse. The central clearinghouse serves as the counterparty, with whom the fund exchanges cash flows.

The value of a 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. Gains or losses are realized when the swap expires or is closed. Certain risks may arise when entering into swap transactions including counterparty default; liquidity; or unfavorable changes in interest rates or the value of the underlying reference security, commodity or index. In connection with bilateral swaps, securities and/or cash may be identified as collateral in accordance with the terms of the swap agreement 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 swap, 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. Upon entering into a centrally cleared swap, 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 notional amount of the swap. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value of the swap. In a cleared swap transaction, counterparty risk is minimized as the central clearinghouse acts as the counterparty.

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.

Interest rate swaps are agreements in which the Fund agrees to pay to 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. The payment obligations are based on the notional amount of the swap. For the six months ended June 30, 2014, the Fund entered into interest rate swap agreements to gain exposure to different parts of the yield curve while managing overall duration.

For the six months ended June 30, 2014, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $31,300,000 to $33,600,000.

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. The Fund may write or purchase interest rate swaption agreements which are options to enter into a pre-defined swap agreement. 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. 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, 2014, the Fund entered into options 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, 2014 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, 2014, the investment in written option contracts had a total value generally indicative of a range from approximately $472,000 to $656,000, and purchased option contracts had a total value generally indicative of a range from approximately $234,000 to $551,000.

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, 2014, 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, 2014, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2014, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $8,602,000 to $22,313,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $5,608,000 to $10,835,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2014 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Purchased Options**	**Futures Contracts**	**Total**
Interest Rate Contracts (a) (b)	$ 234,152	$ 48,556	$ 282,708

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)

(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	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a) (b)	$ (477,846)	$ (643,601)	$ (97,868)	$ (1,219,315)

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. Unsettled variation margin for centrally cleared swaps is disclosed separately within the Statement of Assets and Liabilities.

(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, 2014 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	Written Options	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a)	$ 102,720	$ (292,770)	$ (479,573)	$ (669,623)

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

(a) Net realized gain (loss) from 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)	$ (317,287)	$ 226,931	$ (522,151)	$ 214,266	$ (398,241)

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, 2014, 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	Financial Instruments and Derivatives Available for Offset	Cash Collateral Received	Non-Cash Collateral Received	Net Amount of Derivative Assets
BNP Paribas	$ 178,020	$ (178,020)	$ —	$ —	$ —
Nomura International PLC	56,132	(56,132)	—	—	—
	$ 234,152	**$ (234,152)**	**$ —**	**$ —**	**$ —**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Cash Collateral Pledged	Non-Cash Collateral Pledged (a)	Net Amount of Derivative Liabilities
Barclays Bank PLC	$ 31,631	$ —	$ —	$ —	$ 31,631
BNP Paribas	327,450	(178,020)	—	—	149,430
Citigroup, Inc.	10,697	—	—	—	10,697
Nomura International PLC	121,963	(56,132)	—	(60,619)	5,212
	$ 491,741	**$ (234,152)**	**$ —**	**$ (60,619)**	**$ 196,970**

(a) 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, 2014, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury securities) aggregated $343,648,130 and $345,992,361, respectively. Purchases and sales of U.S. Treasury securities aggregated $14,876,121 and $19,451,597, respectively.

For the six months ended June 30, 2014, transactions for written options on futures and interest rate swap contracts were as follows:

	Contract Amount	Premiums
Outstanding, beginning of period	31,600,000	$ 748,861
Options written	13,800,000	151,900
Options closed	(7,200,000)	(85,020)
Options expired	(2,400,000)	(17,700)
Outstanding, end of period	**35,800,000**	**$ 798,041**

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%

Accordingly, for the six months ended June 30, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate (exclusive of any applicable waivers/reimbursements) of 0.45% of the Fund's average daily net assets.

For the period from January 1, 2014 through April 30, 2014, the Advisor had 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	.67%
Class B	.99%

Effective May 1, 2014 through September 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	.75%
Class B	1.10%

For the six months ended June 30, 2014, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 17,280
Class B	959
	$ 18,239

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, 2014, the Administration Fee was $48,874, of which $7,845 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2014, the amounts charged to the Fund by DSC were as follows:

	Total Aggregated	Unpaid at June 30, 2014
Class A	$ 148	$ 72
Class B	34	17
	$ 182	**$ 89**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plan, DeAWM Distributors, Inc. ("DDI") 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, 2014, the Distribution Service Fee aggregated $4,273, of which $677 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $9,082, of which $2,609 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 Deutsche 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 Deutsche 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 Deutsche 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 Deutsche 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, 2014, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $272.

E. Ownership of the Fund

At June 30, 2014, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 60% and 32%. One participating insurance company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 95%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

G. Fund Name Change

Effective August 11, 2014, the "DWS Funds" were rebranded "Deutsche Funds."

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, 2014 to June 30, 2014).

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, 2014

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,039.60	$1,037.10
Expenses Paid per $1,000*	$ 3.49	$ 5.10
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,021.37	$1,019.79
Expenses Paid per $1,000*	$ 3.46	$ 5.06

* 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**
Deutsche Variable Series II — Deutsche Government & Agency Securities VIP	.69%	1.01%

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

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

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of DWS Government & Agency Securities VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2013.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2013, all but one of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Asset Allocation Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent Trustees were also advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG, a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

As part of the contract review process, the Board carefully considered the fees and expenses of each DWS fund overseen by the Board in light of the fund's performance. In many cases, this led to a negotiation with DIMA of lower expense caps as part of the 2012 and 2013 contract review processes than had previously been in place. As part of these negotiations, the Board indicated that it would consider relaxing these new lower caps in future years following sustained improvements in performance, among other considerations.

In June 2012, Deutsche Bank AG ("DB"), DIMA's parent company, announced that DB would combine its Asset Management (of which DIMA was a part) and Wealth Management divisions. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that it has, and will continue to, reinvest a significant portion of the substantial savings it expects to realize by combining its Asset Management and Wealth Management divisions into the new Asset and Wealth Management ("AWM") division, including ongoing enhancements to its investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the Fee

Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2012, the Fund's performance (Class A shares) was in the 3rd quartile, 1st quartile and 1st quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one- and three-year periods and has underperformed its benchmark in the five-year period ended December 31, 2012.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were higher than the median (3rd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2012). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be equal to the median of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2012, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable fund and considered differences between the Fund and the comparable fund. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive.

The information considered by the Board as part of its review of management fees included information regarding fees charged by DIMA and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DIMA's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and their independent counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Notes

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2GAS-3 (R-028384-3 8/14)

Deutsche Asset
& Wealth Management

June 30, 2014

Semiannual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche High Income VIP

(formerly DWS High Income VIP)

Contents

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

Bond investments are subject to interest-rate and credit risks. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. The Fund may lend securities to approved institutions. See the prospectus for details.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

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

Letter to Shareholders

Dear Shareholder:

I am very pleased to tell you that the DWS funds have been renamed Deutsche funds, aligning more closely with the Deutsche Asset & Wealth Management brand. We are proud to adopt the Deutsche name — a brand that fully represents the global access, discipline and intelligence that support all of our products and services.

Deutsche Asset & Wealth Management combines the asset management and wealth management divisions of Deutsche Bank to deliver a comprehensive suite of active, passive and alternative investment capabilities. Your investment in the Deutsche funds means you have access to the thought leadership and resources of one of the world's largest and most influential financial institutions.

In conjunction with your fund's name change, please note that the Deutsche funds' Web address has changed as well. The former dws-investments.com is now deutschefunds.com.

In addition, key service providers have been renamed as follows:

Former Name	New name, effective August 11, 2014
DWS Investments Distributors, Inc.	DeAWM Distributors, Inc.
DWS Trust Company	DeAWM Trust Company
DWS Investments Service Company	DeAWM Service Company

These changes have no effect on the day-to-day management of your investment, and there is no action required on your part. You will continue to experience the benefits that come from our decades of experience, in-depth research and worldwide network of investment professionals.

Thanks for your continued support. We appreciate your trust and the opportunity to put our capabilities to work for you.

Best regards,

Brian Binder
President, Deutsche Funds

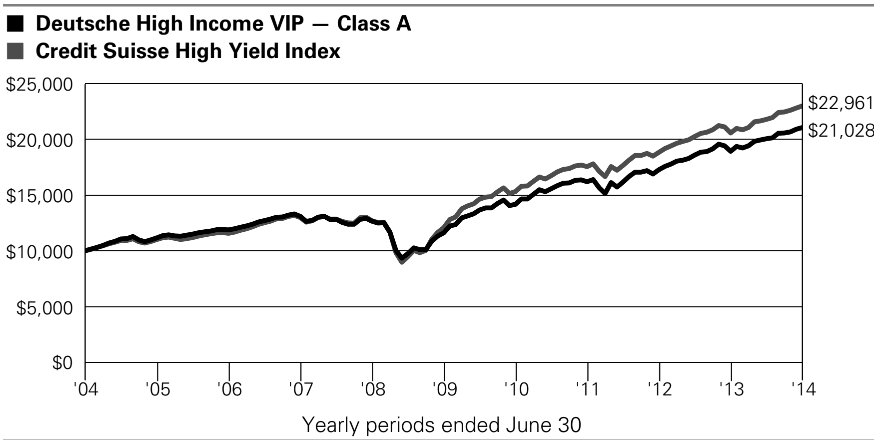
Performance Summary

June 30, 2014 (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, 2014 are 0.73% and 1.10% 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 Deutsche 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

Deutsche High Income VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,501	$11,124	$13,002	$18,126	$21,028
	Average annual total return	5.01%	11.24%	9.14%	12.63%	7.72%
Credit Suisse High Yield Index	Growth of $10,000	$10,555	$11,181	$13,098	$19,048	$22,961
	Average annual total return	5.55%	11.81%	9.41%	13.76%	8.67%

Deutsche High Income VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,504	$11,091	$12,905	$17,900	$20,384
	Average annual total return	5.04%	10.91%	8.87%	12.35%	7.38%
Credit Suisse High Yield Index	Growth of $10,000	$10,555	$11,181	$13,098	$19,048	$22,961
	Average annual total return	5.55%	11.81%	9.41%	13.76%	8.67%

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)	**6/30/14**	**12/31/13**
Corporate Bonds	89%	82%
Cash Equivalents	6%	10%
Convertible Bonds	1%	2%
Loan Participations and Assignments	1%	—
Preferred Stocks	1%	1%
Government & Agency Obligations	1%	4%
Preferred Securities	1%	1%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Government & Agency Obligations, Cash Equivalents and Securities Lending Collateral)	**6/30/14**	**12/31/13**
Telecommunication Services	20%	20%
Consumer Discretionary	17%	19%
Energy	15%	15%
Industrials	11%	10%
Materials	9%	10%
Financials	7%	6%
Information Technology	7%	6%
Health Care	6%	5%
Consumer Staples	5%	7%
Utilities	3%	2%
	100%	100%

Quality (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/14**	**12/31/13**
AAA	1%	4%
BBB	1%	2%
BB	40%	36%
B	44%	44%
CCC	12%	12%
Not Rated	2%	2%
	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 6.

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 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 deutschefunds.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 88.0%		
Consumer Discretionary 16.2%		
AMC Entertainment, Inc., 5.875%, 2/15/2022	220,000	228,800
AMC Networks, Inc., 7.75%, 7/15/2021	80,000	89,500
AmeriGas Finance LLC:		
6.75%, 5/20/2020	460,000	499,100
7.0%, 5/20/2022	350,000	387,625
APX Group, Inc.:		
6.375%, 12/1/2019	205,000	212,688
144A, 8.75%, 12/1/2020 (c)	145,000	147,175
8.75%, 12/1/2020	25,000	25,375
Asbury Automotive Group, Inc., 8.375%, 11/15/2020	505,000	560,550
Ashtead Capital, Inc., 144A, 6.5%, 7/15/2022	330,000	360,525
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	350,000	350,000
Avis Budget Car Rental LLC, 5.5%, 4/1/2023	205,000	209,613
BC Mountain LLC, 144A, 7.0%, 2/1/2021 (b)	210,000	203,175
Block Communications, Inc., 144A, 7.25%, 2/1/2020	375,000	399,375
Boyd Gaming Corp., 9.0%, 7/1/2020 (b)	155,000	170,888
Cablevision Systems Corp.:		
5.875%, 9/15/2022	110,000	112,063
8.0%, 4/15/2020 (b)	65,000	73,816
Carlson Wagonlit BV, 144A, 6.875%, 6/15/2019	215,000	231,125
CCO Holdings LLC:		
6.5%, 4/30/2021	655,000	697,575
6.625%, 1/31/2022	650,000	698,750
7.0%, 1/15/2019 (b)	120,000	126,600
7.375%, 6/1/2020	50,000	54,500
8.125%, 4/30/2020	150,000	162,375
Cequel Communications Holdings LLC:		
144A, 5.125%, 12/15/2021	602,000	599,742
144A, 6.375%, 9/15/2020	1,215,000	1,290,937
Clear Channel Communications, Inc.:		
9.0%, 12/15/2019	530,000	565,112
11.25%, 3/1/2021	280,000	317,450
Clear Channel Worldwide Holdings, Inc.:		
Series A, 6.5%, 11/15/2022	250,000	266,875
Series B, 6.5%, 11/15/2022	365,000	393,287
Series A, 7.625%, 3/15/2020	110,000	117,700
Series B, 7.625%, 3/15/2020	1,115,000	1,202,806
Cogeco Cable, Inc., 144A, 4.875%, 5/1/2020	20,000	20,250
CSC Holdings LLC, 144A, 5.25%, 6/1/2024	510,000	501,712
Cumulus Media Holdings, Inc., 7.75%, 5/1/2019 (b)	375,000	395,156
DISH DBS Corp.:		
4.25%, 4/1/2018	270,000	280,800
5.0%, 3/15/2023	1,225,000	1,247,969
6.75%, 6/1/2021	50,000	57,000
7.875%, 9/1/2019	270,000	320,625
Getty Images, Inc., 144A, 7.0%, 10/15/2020 (b)	305,000	279,456
Group 1 Automotive, Inc., 144A, 5.0%, 6/1/2022	205,000	205,000
Harron Communications LP, 144A, 9.125%, 4/1/2020	395,000	440,425
Hertz Corp., 6.75%, 4/15/2019	305,000	323,300
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	140,000	155,400
Isle of Capri Casinos, Inc., 5.875%, 3/15/2021	100,000	101,125
Jo-Ann Stores Holdings, Inc., 144A, 9.75%, 10/15/2019 (PIK)	160,000	163,600
Live Nation Entertainment, Inc.:		
144A, 5.375%, 6/15/2022	50,000	50,625
144A, 7.0%, 9/1/2020	345,000	377,775
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	370,000	390,350
Mediacom Broadband LLC:		
144A, 5.5%, 4/15/2021	50,000	50,625
6.375%, 4/1/2023	425,000	448,375
Mediacom LLC, 7.25%, 2/15/2022	110,000	119,900
MGM Resorts International:		
6.75%, 10/1/2020	526,000	587,147
8.625%, 2/1/2019	510,000	607,537
Numericable Group SA:		
144A, 4.875%, 5/15/2019	520,000	533,650
144A, 6.0%, 5/15/2022	775,000	806,000
144A, 6.25%, 5/15/2024	225,000	234,844
Petco Animal Supplies, Inc., 144A, 9.25%, 12/1/2018	315,000	338,231
Pinnacle Entertainment, Inc., 6.375%, 8/1/2021	245,000	258,475
Quebecor Media, Inc., 5.75%, 1/15/2023	205,000	210,638
Schaeffler Finance BV, 144A, 7.75%, 2/15/2017	420,000	473,550
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021	125,000	125,313
Seminole Tribe of Florida, Inc., 144A, 7.804%, 10/1/2020	345,000	388,125
Serta Simmons Holdings LLC, 144A, 8.125%, 10/1/2020 (b)	230,000	249,550
Sirius XM Radio, Inc., 144A, 5.875%, 10/1/2020 (b)	195,000	206,213
Springs Industries, Inc., 6.25%, 6/1/2021 (b)	295,000	300,900
Starz LLC, 5.0%, 9/15/2019	175,000	182,219
Taylor Morrison Communities, Inc., 144A, 5.25%, 4/15/2021	250,000	253,750
The Men's Wearhouse, Inc., 144A, 7.0%, 7/1/2022 (b)	145,000	150,075
Travelport LLC:		
144A, 6.352%**, 3/1/2016	230,641	232,371
144A, 13.875%, 3/1/2016 (PIK)	51,848	53,403
UCI International, Inc., 8.625%, 2/15/2019	310,000	294,500
Unitymedia Hessen GmbH & Co., KG:		
144A, 5.5%, 1/15/2023	945,000	978,075
144A, 7.5%, 3/15/2019	435,000	464,362

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

		Principal Amount ($)(a)	Value ($)
Unitymedia KabelBW GmbH, 144A, 9.625%, 12/1/2019	EUR	550,000	807,918
Univision Communications, Inc., 144A, 7.875%, 11/1/2020		140,000	154,000
Viking Cruises Ltd., 144A, 8.5%, 10/15/2022		205,000	226,525
Visant Corp., 10.0%, 10/1/2017 (b)		460,000	428,950
Weyerhaeuser Real Estate Co.:			
144A, 4.375%, 6/15/2019		145,000	145,363
144A, 5.875%, 6/15/2024		45,000	46,294
			26,422,548
Consumer Staples 4.6%			
Big Heart Pet Brands, 7.625%, 2/15/2019		284,000	295,956
Chiquita Brands International, Inc., 7.875%, 2/1/2021		195,000	212,306
Cott Beverages, Inc., 144A, 5.375%, 7/1/2022		240,000	240,600
FAGE Dairy Industry SA, 144A, 9.875%, 2/1/2020 (b)		810,000	866,700
JBS Investments GmbH:			
144A, 7.25%, 4/3/2024		525,000	543,375
144A, 7.75%, 10/28/2020		405,000	433,350
JBS U.S.A. LLC:			
144A, 7.25%, 6/1/2021		485,000	520,163
144A, 8.25%, 2/1/2020		160,000	173,600
Pilgrim's Pride Corp., 7.875%, 12/15/2018		290,000	307,052
Post Holdings, Inc.:			
144A, 6.0%, 12/15/2022		200,000	204,000
144A, 6.75%, 12/1/2021		450,000	478,125
Reynolds Group Issuer, Inc.:			
5.75%, 10/15/2020		1,390,000	1,466,450
6.875%, 2/15/2021		540,000	582,727
8.25%, 2/15/2021 (b)		225,000	244,688
Roundy's Supermarkets, Inc., 144A, 10.25%, 12/15/2020		220,000	232,375
Smithfield Foods, Inc., 6.625%, 8/15/2022		190,000	208,050
U.S. Foods, Inc., 8.5%, 6/30/2019		400,000	428,200
			7,437,717
Energy 13.7%			
Access Midstream Partners LP, 6.125%, 7/15/2022		325,000	359,125
Antero Resources Finance Corp., 5.375%, 11/1/2021		110,000	114,125
Baytex Energy Corp.:			
144A, 5.125%, 6/1/2021		95,000	95,594
144A, 5.625%, 6/1/2024		95,000	95,356
Berry Petroleum Co., LLC:			
6.375%, 9/15/2022		205,000	218,325
6.75%, 11/1/2020		680,000	715,700
BreitBurn Energy Partners LP:			
7.875%, 4/15/2022		700,000	757,750
8.625%, 10/15/2020		225,000	247,500
Chaparral Energy, Inc.:			
7.625%, 11/15/2022		465,000	502,200
8.25%, 9/1/2021		300,000	329,250
Chesapeake Energy Corp., 3.479%,** 4/15/2019		300,000	303,375
Chesapeake Oilfield Operating LLC, 6.625%, 11/15/2019		150,000	161,250

	Principal Amount ($)(a)	Value ($)
CONSOL Energy, Inc., 144A, 5.875%, 4/15/2022	105,000	109,988
Crestwood Midstream Partners LP:		
144A, 6.125%, 3/1/2022	165,000	173,663
7.75%, 4/1/2019	325,000	348,562
Dresser-Rand Group, Inc., 6.5%, 5/1/2021	420,000	449,400
Endeavor Energy Resources LP, 144A, 7.0%, 8/15/2021	545,000	581,787
EP Energy LLC:		
6.875%, 5/1/2019	330,000	351,037
7.75%, 9/1/2022	285,000	321,338
9.375%, 5/1/2020	150,000	171,750
EV Energy Partners LP, 8.0%, 4/15/2019	835,000	876,750
EXCO Resources, Inc., 8.5%, 4/15/2022	155,000	167,400
Halcon Resources Corp.:		
8.875%, 5/15/2021 (b)	1,513,500	1,627,012
9.75%, 7/15/2020	500,000	545,625
Hilcorp Energy I LP, 144A, 5.0%, 12/1/2024 (c)	195,000	195,000
Holly Energy Partners LP, 6.5%, 3/1/2020	105,000	113,138
Kodiak Oil & Gas Corp., 5.5%, 1/15/2021 (b)	400,000	417,000
Linn Energy LLC, 6.25%, 11/1/2019	490,000	513,275
MEG Energy Corp.:		
144A, 6.5%, 3/15/2021	235,000	249,100
144A, 7.0%, 3/31/2024	470,000	518,175
Memorial Resource Development Corp., 144A, 5.875%, 7/1/2022 (c)	195,000	196,463
Midstates Petroleum Co., Inc.:		
9.25%, 6/1/2021 (b)	590,000	647,525
10.75%, 10/1/2020	585,000	663,975
Murphy Oil U.S.A., Inc., 6.0%, 8/15/2023	290,000	305,225
Northern Oil & Gas, Inc., 8.0%, 6/1/2020	595,000	635,162
Oasis Petroleum, Inc.:		
6.5%, 11/1/2021	175,000	188,125
144A, 6.875%, 3/15/2022	385,000	419,650
6.875%, 1/15/2023	130,000	141,700
7.25%, 2/1/2019	665,000	704,900
Offshore Group Investment Ltd.:		
7.125%, 4/1/2023	410,000	416,150
7.5%, 11/1/2019	745,000	787,837
Regency Energy Partners LP, 5.875%, 3/1/2022	25,000	27,156
Sabine Pass Liquefaction LLC:		
5.625%, 2/1/2021	690,000	729,675
5.625%, 4/15/2023	155,000	161,588
144A, 5.75%, 5/15/2024	175,000	182,438
Samson Investment Co., 144A, 10.75%, 2/15/2020	155,000	163,331
SandRidge Energy, Inc., 7.5%, 3/15/2021	1,935,000	2,097,056
SESI LLC, 6.375%, 5/1/2019	235,000	250,863
Seventy Seven Energy, Inc., 144A, 6.5%, 7/15/2022	50,000	51,250
Swift Energy Co., 7.875%, 3/1/2022 (b)	290,000	303,050
Talos Production LLC, 144A, 9.75%, 2/15/2018	410,000	434,600
Welltec AS, 144A, 8.0%, 2/1/2019	400,000	426,000

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

		Principal Amount ($)(a)	Value ($)
Whiting Petroleum Corp., 5.0%, 3/15/2019		240,000	252,600
WPX Energy, Inc., 5.25%, 1/15/2017		510,000	543,150
			22,359,019
Financials 6.0%			
AerCap Aviation Solutions BV, 6.375%, 5/30/2017		470,000	518,175
CIT Group, Inc.:			
3.875%, 2/19/2019		2,810,000	2,853,836
5.25%, 3/15/2018		540,000	579,825
Credit Agricole SA, 144A, 7.875%, 1/29/2049 (b)		330,000	360,525
Credit Suisse Group AG, 144A, 6.25%, 12/29/2049 (b)		230,000	231,495
E*TRADE Financial Corp.:			
6.375%, 11/15/2019		585,000	633,262
6.75%, 6/1/2016		710,000	770,350
Hellas Telecommunications Finance, 144A, 8.328%**, 7/15/2015 (PIK)*	EUR	322,107	0
International Lease Finance Corp.:			
3.875%, 4/15/2018		385,000	394,625
6.25%, 5/15/2019		320,000	358,400
8.75%, 3/15/2017		245,000	284,813
Morgan Stanley, Series H, 5.45%, 7/29/2049		155,000	157,827
MPT Operating Partnership LP:			
(REIT), 6.375%, 2/15/2022		290,000	311,025
(REIT), 6.875%, 5/1/2021		295,000	321,550
Neuberger Berman Group LLC, 144A, 5.625%, 3/15/2020		160,000	169,200
Popular, Inc., 7.0%, 7/1/2019 (c)		145,000	147,175
Societe Generale SA, 144A, 7.875%, 12/29/2049 (b)		825,000	879,656
The Goldman Sachs Group, Inc., Series L, 5.7%, 12/29/2049		260,000	268,613
UniCredit SpA, 8.0%, 4/3/2049		500,000	532,500
			9,772,852
Health Care 5.7%			
Aviv Healthcare Properties LP:			
6.0%, 10/15/2021		100,000	106,000
7.75%, 2/15/2019		500,000	532,500
Biomet, Inc.:			
6.5%, 8/1/2020		355,000	382,512
6.5%, 10/1/2020		100,000	106,750
Community Health Systems, Inc.:			
5.125%, 8/15/2018		1,155,000	1,211,306
144A, 5.125%, 8/1/2021		55,000	56,375
144A, 6.875%, 2/1/2022		220,000	233,200
7.125%, 7/15/2020 (b)		635,000	687,387
Crimson Merger Sub, Inc., 144A, 6.625%, 5/15/2022		525,000	521,062
Endo Finance LLC:			
144A, 5.375%, 1/15/2023		215,000	214,731
144A, 5.75%, 1/15/2022		220,000	224,400
Fresenius Medical Care U.S. Finance II, Inc., 144A, 5.625%, 7/31/2019		220,000	239,800

	Principal Amount ($)(a)	Value ($)
Fresenius U.S. Finance II, Inc., 144A, 9.0%, 7/15/2015	420,000	452,550
HCA, Inc.:		
6.5%, 2/15/2020	890,000	1,001,250
7.5%, 2/15/2022	305,000	351,894
Hologic, Inc., 6.25%, 8/1/2020	200,000	211,000
IMS Health, Inc., 144A, 6.0%, 11/1/2020	250,000	262,500
LifePoint Hospitals, Inc., 144A, 5.5%, 12/1/2021	275,000	288,063
Par Pharmaceutical Companies, Inc., 7.375%, 10/15/2020	345,000	370,875
Physio-Control International, Inc., 144A, 9.875%, 1/15/2019	299,000	330,395
Salix Pharmaceuticals Ltd., 144A, 6.0%, 1/15/2021	165,000	176,963
Valeant Pharmaceuticals International, Inc. 144A:		
6.375%, 10/15/2020	245,000	260,313
7.5%, 7/15/2021	1,050,000	1,162,875
		9,384,701
Industrials 9.5%		
ADT Corp.:		
3.5%, 7/15/2022	150,000	136,500
4.125%, 4/15/2019	45,000	45,281
6.25%, 10/15/2021 (b)	145,000	153,700
Aguila 3 SA, 144A, 7.875%, 1/31/2018	480,000	506,400
Alphabet Holding Co., Inc., 7.75%, 11/1/2017 (PIK)	480,000	495,600
Armored Autogroup, Inc., 9.25%, 11/1/2018 (b)	610,000	642,025
Artesyn Escrow, Inc., 144A, 9.75%, 10/15/2020	245,000	240,713
AWAS Aviation Capital Ltd., 144A, 7.0%, 10/17/2016	341,960	352,219
BakerCorp International, Inc., 8.25%, 6/1/2019	335,000	345,887
BE Aerospace, Inc., 6.875%, 10/1/2020	180,000	195,525
Belden, Inc., 144A, 5.5%, 9/1/2022	355,000	367,425
Bombardier, Inc.:		
144A, 4.75%, 4/15/2019	160,000	162,800
144A, 5.75%, 3/15/2022 (b)	225,000	230,625
144A, 6.0%, 10/15/2022	265,000	271,625
Casella Waste Systems, Inc., 7.75%, 2/15/2019	275,000	287,375
Covanta Holding Corp., 5.875%, 3/1/2024	220,000	227,425
CTP Transportation Products LLC, 144A, 8.25%, 12/15/2019	275,000	296,313
Darling Ingredients, Inc., 144A, 5.375%, 1/15/2022	220,000	228,250
DigitalGlobe, Inc., 5.25%, 2/1/2021	160,000	158,400
Ducommun, Inc., 9.75%, 7/15/2018	305,000	339,407
Florida East Coast Holdings Corp., 144A, 6.75%, 5/1/2019	470,000	496,437
FTI Consulting, Inc., 6.0%, 11/15/2022	205,000	210,894
Garda World Security Corp., 144A, 7.25%, 11/15/2021	290,000	304,863

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

	Principal Amount ($)(a)	Value ($)
Gates Global LLC, 144A, 6.0%, 7/15/2022	190,000	190,000
GenCorp, Inc., 7.125%, 3/15/2021	535,000	584,487
Huntington Ingalls Industries, Inc.:		
6.875%, 3/15/2018	280,000	296,100
7.125%, 3/15/2021	60,000	65,550
Interactive Data Corp., 144A, 5.875%, 4/15/2019	260,000	263,900
Kenan Advantage Group, Inc., 144A, 8.375%, 12/15/2018	575,000	615,250
Meritor, Inc.:		
6.25%, 2/15/2024	215,000	225,213
6.75%, 6/15/2021	300,000	322,680
Navios Maritime Holdings, Inc.:		
144A, 7.375%, 1/15/2022	830,000	854,900
8.125%, 2/15/2019	410,000	431,012
Nortek, Inc., 8.5%, 4/15/2021	440,000	486,200
Oshkosh Corp., 5.375%, 3/1/2022	165,000	169,950
Ply Gem Industries, Inc., 144A, 6.5%, 2/1/2022 (b)	275,000	266,063
Spirit AeroSystems, Inc.:		
144A, 5.25%, 3/15/2022	285,000	289,275
6.75%, 12/15/2020	205,000	220,375
Titan International, Inc., 6.875%, 10/1/2020	590,000	598,850
TransDigm, Inc.:		
144A, 6.0%, 7/15/2022	260,000	267,150
144A, 6.5%, 7/15/2024	155,000	161,394
7.5%, 7/15/2021	470,000	520,525
Triumph Group, Inc., 144A, 5.25%, 6/1/2022	130,000	130,325
United Rentals North America, Inc.:		
5.75%, 7/15/2018	365,000	385,987
6.125%, 6/15/2023	25,000	26,813
7.375%, 5/15/2020	595,000	657,475
7.625%, 4/15/2022	595,000	667,887
Watco Companies LLC, 144A, 6.375%, 4/1/2023	155,000	158,100
		15,551,150

Information Technology 5.8%

	Principal Amount ($)(a)	Value ($)
ACI Worldwide, Inc., 144A, 6.375%, 8/15/2020	105,000	110,513
Activision Blizzard, Inc., 144A, 5.625%, 9/15/2021	805,000	867,387
Alliance Data Systems Corp., 144A, 5.25%, 12/1/2017	255,000	266,475
Audatex North America, Inc., 144A, 6.0%, 6/15/2021	200,000	213,500
BMC Software Finance, Inc., 144A, 8.125%, 7/15/2021	450,000	462,938
Boxer Parent Co., Inc., 144A, 9.0%, 10/15/2019 (PIK)	320,000	312,000
CDW LLC, 8.5%, 4/1/2019	1,180,000	1,277,350
CyrusOne LP, 6.375%, 11/15/2022	105,000	113,138
eAccess Ltd., 144A, 8.25%, 4/1/2018	335,000	361,800
EarthLink Holdings Corp., 7.375%, 6/1/2020	245,000	261,231
Entegris, Inc., 144A, 6.0%, 4/1/2022	160,000	164,800
Equinix, Inc.:		
5.375%, 4/1/2023	725,000	741,312
7.0%, 7/15/2021	215,000	237,575
First Data Corp.:		
144A, 6.75%, 11/1/2020	611,000	661,407
144A, 7.375%, 6/15/2019	250,000	268,438
144A, 8.75%, 1/15/2022 (PIK)	910,000	1,004,412
144A, 8.875%, 8/15/2020	495,000	547,594
Freescale Semiconductor, Inc., 144A, 6.0%, 1/15/2022	275,000	292,875
Hughes Satellite Systems Corp.:		
6.5%, 6/15/2019	445,000	496,175
7.625%, 6/15/2021	230,000	263,350
Micron Technology, Inc., 144A, 5.875%, 2/15/2022	110,000	117,975
NCR Corp.:		
144A, 5.875%, 12/15/2021	55,000	58,025
144A, 6.375%, 12/15/2023	135,000	146,475
NXP BV, 144A, 3.75%, 6/1/2018	250,000	250,625
Sanmina Corp., 144A, 4.375%, 6/1/2019	25,000	24,969
		9,522,339

Materials 5.7%

	Principal Amount ($)(a)	Value ($)
Ardagh Packaging Finance PLC, 144A, 3.211%, 12/15/2019 (c)	310,000	309,225
AuRico Gold, Inc., 144A, 7.75%, 4/1/2020	155,000	153,450
Berry Plastics Corp.:		
5.5%, 5/15/2022	435,000	437,447
9.75%, 1/15/2021	460,000	524,400
BOE Intermediate Holding Corp., 144A, 9.0%, 11/1/2017 (PIK)	317,975	333,476
BOE Merger Corp., 144A, 9.5%, 11/1/2017 (PIK)	410,000	432,037
Cascades, Inc., 144A, 5.5%, 7/15/2022	145,000	144,638
Clearwater Paper Corp., 7.125%, 11/1/2018	390,000	409,500
Crown Americas LLC, 6.25%, 2/1/2021	50,000	53,500
Exopack Holding Corp., 144A, 10.0%, 6/1/2018	230,000	247,250
Exopack Holdings SA, 144A, 7.875%, 11/1/2019	275,000	294,250
First Quantum Minerals Ltd.:		
144A, 6.75%, 2/15/2020	551,000	567,530
144A, 7.0%, 2/15/2021	551,000	566,841
FMG Resources (August 2006) Pty Ltd.:		
144A, 6.0%, 4/1/2017 (b)	315,000	325,237
144A, 8.25%, 11/1/2019 (b)	270,000	293,963
Hexion U.S. Finance Corp.:		
6.625%, 4/15/2020	505,000	535,300
8.875%, 2/1/2018	270,000	280,800
IAMGOLD Corp., 144A, 6.75%, 10/1/2020	310,000	286,750
Kaiser Aluminum Corp., 8.25%, 6/1/2020	260,000	292,500
Packaging Dynamics Corp., 144A, 8.75%, 2/1/2016	535,000	549,445
Perstorp Holding AB, 144A, 8.75%, 5/15/2017 (b)	455,000	487,987
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021	250,000	263,750
Polymer Group, Inc., 7.75%, 2/1/2019	270,000	286,875
Rain CII Carbon LLC:		
144A, 8.0%, 12/1/2018	270,000	283,500
144A, 8.25%, 1/15/2021 (b)	200,000	210,000

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

	Principal Amount ($)(a)	Value ($)
Sealed Air Corp.:		
144A, 8.125%, 9/15/2019	150,000	165,188
144A, 8.375%, 9/15/2021	150,000	171,750
Signode Industrial Group Lux SA, 144A, 6.375%, 5/1/2022	210,000	212,625
Tronox Finance LLC, 6.375%, 8/15/2020 (b)	200,000	206,500
		9,325,714

Telecommunication Services 18.5%

	Principal Amount ($)(a)	Value ($)
Altice Financing SA:		
144A, 7.875%, 12/15/2019	235,000	257,208
144A, 6.5%, 1/15/2022	200,000	213,000
Altice Finco SA, 144A, 9.875%, 12/15/2020	235,000	270,838
Altice SA, 144A, 7.75%, 5/15/2022	245,000	261,538
B Communications Ltd., 144A, 7.375%, 2/15/2021	270,000	290,250
CenturyLink, Inc.:		
Series V, 5.625%, 4/1/2020	105,000	110,775
Series W, 6.75%, 12/1/2023	280,000	305,900
Cincinnati Bell, Inc.:		
8.375%, 10/15/2020	1,505,000	1,649,856
8.75%, 3/15/2018	640,000	671,200
CommScope, Inc., 144A, 5.0%, 6/15/2021	260,000	265,200
CPI International, Inc., 8.75%, 2/15/2018	260,000	272,350
Digicel Group Ltd.:		
144A, 7.125%, 4/1/2022	265,000	276,263
144A, 8.25%, 9/30/2020	1,560,000	1,700,400
Digicel Ltd.:		
144A, 7.0%, 2/15/2020	200,000	211,000
144A, 8.25%, 9/1/2017	1,090,000	1,121,392
Frontier Communications Corp.:		
7.125%, 1/15/2023	1,370,000	1,452,200
8.25%, 4/15/2017	348,000	404,115
8.5%, 4/15/2020	100,000	118,000
Intelsat Jackson Holdings SA:		
5.5%, 8/1/2023	465,000	462,675
7.25%, 10/15/2020	1,230,000	1,325,325
7.5%, 4/1/2021	1,270,000	1,390,650
8.5%, 11/1/2019	580,000	616,250
Intelsat Luxembourg SA:		
7.75%, 6/1/2021	670,000	709,362
8.125%, 6/1/2023	105,000	113,531
Level 3 Communications, Inc., 8.875%, 6/1/2019	55,000	60,156
Level 3 Financing, Inc.:		
144A, 6.125%, 1/15/2021	165,000	176,756
7.0%, 6/1/2020	1,260,000	1,376,550
8.125%, 7/1/2019	670,000	731,137
8.625%, 7/15/2020	510,000	571,200
MetroPCS Wireless, Inc.:		
6.625%, 11/15/2020	705,000	752,587
7.875%, 9/1/2018	420,000	441,126
Millicom International Cellular SA, 144A, 4.75%, 5/22/2020	720,000	720,000
Pacnet Ltd., 144A, 9.0%, 12/12/2018	200,000	216,500
SBA Communications Corp., 5.625%, 10/1/2019	200,000	211,750
Sprint Communications, Inc.:		
144A, 7.0%, 3/1/2020	245,000	281,750
144A, 9.0%, 11/15/2018	845,000	1,024,562
9.125%, 3/1/2017	310,000	363,087
Sprint Corp., 144A, 7.125%, 6/15/2024	770,000	816,200
T-Mobile U.S.A., Inc.:		
6.125%, 1/15/2022	110,000	116,738
6.5%, 1/15/2024	110,000	117,563
6.625%, 4/1/2023 (b)	245,000	265,825
tw telecom holdings, Inc.:		
5.375%, 10/1/2022	320,000	360,938
6.375%, 9/1/2023	245,000	278,688
UPCB Finance III Ltd., 144A, 6.625%, 7/1/2020	185,000	197,025
UPCB Finance V Ltd., 144A, 7.25%, 11/15/2021	1,480,000	1,628,000
UPCB Finance VI Ltd., 144A, 6.875%, 1/15/2022	300,000	327,750
Wind Acquisition Finance SA:		
144A, 6.5%, 4/30/2020	195,000	211,331
144A, 7.25%, 2/15/2018	410,000	433,165
Windstream Corp.:		
6.375%, 8/1/2023	265,000	268,644
7.5%, 4/1/2023	420,000	454,650
7.75%, 10/15/2020	1,880,000	2,037,450
7.75%, 10/1/2021	675,000	737,437
7.875%, 11/1/2017	495,000	569,869
		30,217,712

Utilities 2.3%

	Principal Amount ($)(a)	Value ($)
AES Corp.:		
3.229%,** 6/1/2019	175,000	176,313
8.0%, 10/15/2017	51,000	59,415
8.0%, 6/1/2020	525,000	631,312
Calpine Corp.:		
144A, 7.5%, 2/15/2021	387,000	419,895
144A, 7.875%, 7/31/2020	428,000	464,380
Enel SpA, 144A, 8.75%**, 9/24/2073	360,000	423,900
Energy Future Holdings Corp., Series Q, 6.5%, 11/15/2024*	550,000	415,250
NGL Energy Partners LP, 144A, 5.125%, 7/15/2019 (c)	190,000	190,475
NRG Energy, Inc.:		
144A, 6.25%, 5/1/2024	770,000	804,650
7.875%, 5/15/2021	215,000	238,379
		3,823,969
Total Corporate Bonds (Cost $137,003,693)		**143,817,721**

Government & Agency Obligation 0.6%

U.S. Treasury Obligation

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Note, 1.0%, 8/31/2016 (d) (Cost $1,060,442)	1,050,000	**1,060,828**

Loan Participations and Assignments 1.3%

Senior Loans**

	Principal Amount ($)(a)	Value ($)
Alliance Mortgage Cycle Loan, Term Loan A, 9.5%, 6/15/2010*	700,000	0
Ardagh Holdings U.S.A., Inc., Term Loan B, 4.25%, 12/17/2019	438,897	441,092
Asurion LLC, Second Lien Term Loan, 8.5%, 3/3/2021	310,000	322,206
DaVita HealthCare Partners, Inc., Term Loan B, Zero Coupon, 6/24/2021	470,000	472,698

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

	Principal Amount ($)(a)	Value ($)
Freescale Semiconductor, Inc., Term Loan B4, 4.25%, 2/28/2020	309,223	309,674
Ply Gem Industries, Inc., Term Loan, 4.0%, 2/1/2021	309,225	307,756
Spansion LLC, Term Loan, Zero Coupon, 12/19/2019	190,000	190,791
Travelport LLC, Second Lien Term Loan, 9.5%, 1/29/2016	36,284	37,463
Total Loan Participations and Assignments (Cost $2,767,723)		**2,081,680**

Convertible Bonds 1.7%

Consumer Discretionary 0.1%

Live Nation Entertainment, Inc., 144A, 2.5%, 5/15/2019	145,000	**150,981**

Materials 1.6%

GEO Specialty Chemicals, Inc., 144A, 7.5%, 3/31/2015 (PIK)	1,297,793	**2,613,106**
Total Convertible Bonds (Cost $1,433,710)		**2,764,087**

Preferred Security 0.6%

Materials

Hercules, Inc., 6.5%, 6/30/2029 (Cost $767,119)	1,135,000	**1,027,175**

	Shares	Value ($)

Common Stocks 0.0%

Consumer Discretionary 0.0%

Dawn Holdings, Inc.* (e)	15	44,160
Trump Entertainment Resorts, Inc.*	45	0
		44,160

Industrials 0.0%

Congoleum Corp.*	24,000	**0**

	Shares	Value ($)

Materials 0.0%

GEO Specialty Chemicals, Inc.*	24,225	18,726
GEO Specialty Chemicals, Inc. 144A*	2,206	1,705
		20,431
Total Common Stocks (Cost $345,217)		**64,591**

Preferred Stock 0.7%

Financials

Ally Financial, Inc. Series G, 144A, 7.0% (Cost $1,058,296)	1,134	**1,142,541**

Warrants 0.1%

Materials

GEO Specialty Chemicals, Inc., Expiration Date 3/31/2015*	119,802	91,708
Hercules Trust II, Expiration Date 3/31/2029*	1,100	7,077
Total Warrants (Cost $244,286)		**98,785**

Securities Lending Collateral 5.6%

Daily Assets Fund Institutional, 0.08% (f) (g) (Cost $9,098,382)	9,098,382	**9,098,382**

Cash Equivalents 5.8%

Central Cash Management Fund, 0.06% (f) (Cost $9,427,233)	9,427,233	**9,427,233**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $163,206,101)†	104.4	**170,583,023**
Other Assets and Liabilities, Net	(4.4)	**(7,241,952)**
Net Assets	100.0	**163,341,071**

The following table represents bonds and senior loans that are in default:

Security	Coupon	Maturity Date		Principal Amount	Cost ($)	Value ($)
Alliance Mortgage Cycle Loan*	9.5%%	6/15/2010	USD	700,000	700,000	0
Energy Future Holdings Corp.*	6.5%	11/15/2024	USD	550,000	322,434	415,250
Hellas Telecommunications Finance*	8.328%	7/15/2015	EUR	322,107	92,199	0
					1,114,633	**415,250**

* 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, 2014.

† The cost for federal income tax purposes was $163,206,101. At June 30, 2014, net unrealized appreciation for all securities based on tax cost was $7,376,922. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $8,876,751 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,499,829.

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

(b) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at June 30, 2014 amounted to $8,762,305, which is 5.4% of net assets.

(c) When-issued security.

(d) At June 30, 2014, this security has been pledged, in whole or in part, as collateral for open over-the-counter derivatives.

(e) 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 accompanying notes are an integral part of the financial statements.

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
Dawn Holdings, Inc.	August 2013	53,353	44,160	0.03

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

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

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

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, 2014, open credit default swap contracts sold were as follows:

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount ($) (h)	Fixed Cash Flows Received	Underlying Debt Obligation/Quality Rating (i)	Value ($)	Unrealized Appreciation ($)
10/19/2013 12/20/2018	11,880,000	5.0%	Markit Dow Jones CDX North America High Yield Index	1,106,046	**378,802**

Bilateral Swaps

Effective/ Expiration Dates	Notional Amount ($) (h)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (i)	Value ($)	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–	41,093	8,486	32,607
9/30/2013 12/20/2018	300,000[2]	5.0%	CSC Holdings LLC, 7.625%, 7/15/2018, BB	38,566	25,265	13,301
9/30/2013 12/20/2018	1,125,000[3]	5.0%	CSC Holdings LLC, 7.625%, 7/15/2018, BB	144,624	100,063	44,561
6/20/2013 9/20/2018	245,000[1]	5.0%	DISH DBS Corp., 6.75%, 6/1/2021, BB–	37,264	18,485	18,779
6/21/2010 9/20/2015	215,000[1]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BBB–	13,159	(19,350)	32,509
6/21/2010 9/20/2015	105,000[1]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BBB–	6,426	(8,400)	14,826
6/21/2010 9/20/2015	560,000[4]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BBB–	34,276	(9,983)	44,259
6/21/2010 9/20/2015	175,000[3]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BBB–	10,711	(16,625)	27,336
6/21/2010 9/20/2015	100,000[5]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BBB–	6,121	(6,896)	13,017
6/20/2011 9/20/2016	575,000[4]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BBB–	61,378	23,641	37,737
3/21/2011 6/20/2016	1,085,000[2]	5.0%	Ford Motor Credit Co., LLC, 5.0%, 5/15/2018, BBB–	103,702	51,299	52,403
6/20/2011 9/20/2016	440,000[2]	5.0%	Forest Oil Corp., 7.25%, 6/15/2019, CCC+	5,393	7,292	(1,899)
9/20/2012 12/20/2017	485,000[6]	5.0%	General Motors Corp., 3.3%, 12/20/2017, BB+	69,361	25,038	44,323
6/20/2011 9/20/2015	1,145,000[5]	5.0%	HCA, Inc., 6.375%, 1/15/2015, B–	65,704	17,820	47,884
3/21/2011 6/20/2016	610,000[3]	5.0%	HCA, Inc., 6.375%, 1/15/2015, B–	52,704	9,005	43,699
6/20/2013 9/20/2018	470,000[5]	5.0%	HCA, Inc., 8.0%, 10/1/2018, B–	64,730	31,728	33,002
6/20/2013 9/20/2018	730,000[4]	5.0%	Sprint Communications, Inc., 6.0%, 12/1/2016, BB–	89,956	36,625	53,331
12/20/2013 3/20/2019	3,000,000[5]	5.0%	Sprint Communications, Inc., 6.0%, 12/1/2016, BB–	363,340	293,847	69,493
Total net unrealized appreciation						**621,168**

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

(h) 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.

(i) 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] Barclays Bank PLC

[3] JPMorgan Chase Securities, Inc.

[4] Bank of America

[5] Goldman Sachs & Co.

[6] UBS AG

At June 30, 2014, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
EUR	593,00	USD	804,674	7/25/2014	**(7,405)**	JPMorgan Chase Securities, 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.

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2014 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 (j)				
Corporate Bonds	$ —	$143,817,721	$ 0	$143,817,721
Government & Agency Obligation	—	1,060,828	—	1,060,828
Loan Participations and Assignments	—	2,081,680	0	2,081,680
Convertible Bonds	—	150,981	2,613,106	2,764,087
Preferred Security	—	1,027,175	—	1,027,175
Common Stocks (j)	—	—	64,591	64,591
Preferred Stocks	—	1,142,541	—	1,142,541
Warrants (j)	—	—	98,785	98,785
Short-Term Investments (j)	18,525,615	—	—	18,525,615
Derivatives (k)				
Credit Default Swap Contracts	—	1,001,869	—	1,001,869
Total	**$ 18,525,615**	**$150,282,795**	**$ 2,776,482**	**$171,584,892**

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives (k)				
Credit Default Swap Contracts	$ —	$ (1,899)	$ —	$ (1,899)
Forward Foreign Currency Exchange Contracts	—	(7,405)	—	(7,405)
Total	**$ —**	**$ (9,304)**	**$ —**	**$ (9,304)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2014.

(j) See Investment Portfolio for additional detailed categorizations.

(k) Derivatives include unrealized appreciation (depreciation) on credit default swap contracts and forward foreign currency exchange contracts.

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

Level 3 Reconciliation

The following is a reconciliation of the Fund's Level 3 investments for which significant unobservable inputs were used in determining value:

	Corporate Bonds	Loan Participations and Assignments	Convertible Bonds	Common Stocks	Warrants	Total
Balance as of December 31, 2013	$ 0	$ 0	$ 2,514,085	$ 289,546	$ 99,821	**$2,903,452**
Realized gains (loss)	(965,174)	—	—	44,875	—	**(920,299)**
Change in unrealized appreciation (depreciation)	965,174	—	93,214	(42,629)	(1,036)	**1,014,723**
Amortization of premium/accretion of discount	—	—	5,807	—	—	**5,807**
Purchases	—	—	—	—	—	**—**
(Sales)	—	—	—	(227,201)	—	**(227,201)**
Transfer into Level 3	—	—	—	—	—	**—**
Balance as of June 30, 2014	**$ 0**	**$ 0**	**$ 2,613,106**	**$ 64,591**	**$ 98,785**	**$2,776,482**
Net change in unrealized appreciation (depreciation) from investments still held as of June 30, 2014	**$ 0**	**$ 0**	**$ 93,214**	**$ 2,246**	**$ (1,036)**	**$ 94,424**

Quantitative Disclosure About Significant Unobservable Inputs

Asset Class	Fair Value at 6/30/14	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Common Stocks				
Consumer Discretionary	$ 44,160	Asset Valuation	Book Value of Equity	$3,753 per share
			Discount for lack of marketability	20%
	$ 0	Asset Valuation	Book Value of Equity	0%
Industrials	$ 0	Asset Valuation	Book Value of Equity	0%
Materials	$ 20,431	Market Approach	EV/EBITDA Multiple	6.37
			Discount to public comparables	20%
			Discount for lack of marketability	25%
Warrants				
Materials	$ 7,077	Black Scholes Option Pricing Model	Implied Volatility	25.6%
			Discount for lack of marketability	20%
	$ 91,708	Market Approach	EV/EBITDA Multiple	6.37
			Discount to public comparables	20%
			Discount for lack of marketability	25%
Loan Participations & Assignments				
Senior Loans	$ 0	Market Approach	Evaluated Price	0
Corporate Bonds				
Finance	$ 0	Asset Valuation	Book Value	0
Convertible Bonds				
Consumer Discretionary	$ 2,613,106	Convertible Bond Methodology	EV/EBITDA Multiple	6.37
			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 methodology. A significant change in the EV to EBITDA ratio could have a material change on the fair value measurement, while a significant change in the discount for lack of marketability is unlikely to result in a materially higher or lower fair value measurement. Generally, there is an inverse relationship between the EV to EBITDA ratio and the fair value measurement of a fixed income investment.

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

Statement of Assets and Liabilities

as of June 30, 2014 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $144,680,486) — including $8,762,305 of securities loaned	$ 152,057,408
Investment in Daily Assets Fund Institutional (cost $9,098,382)*	9,098,382
Investment in Central Cash Management Fund (cost $9,427,233)	9,427,233
Total investments in securities, at value (cost $163,206,101)	170,583,023
Cash	21,804
Foreign currency, at value (cost $637)	642
Receivable for investments sold	755,066
Receivable for investments sold — when-issued/delayed delivery security	268,138
Receivable for Fund shares sold	7,923
Interest receivable	2,389,685
Unrealized appreciation on bilateral swap contracts	623,067
Upfront payments paid on bilateral swap contracts	648,594
Other assets	1,017
Total assets	175,298,959
Liabilities	
Payable upon return of securities loaned	9,098,382
Payable for investments purchased	877,476
Payable for investments purchased — when-issued/delayed delivery security	1,453,881
Payable for Fund shares redeemed	276,898
Unrealized depreciation on bilateral swap contracts	1,899
Unrealized depreciation on forward foreign currency exchange contracts	7,405
Upfront payments received on swap contracts	61,253
Accrued management fee	67,242
Payable for variation margin on centrally cleared swaps	12,788
Accrued Trustees' fees	9
Other accrued expenses and payables	100,655
Total liabilities	11,957,888
Net assets, at value	**$ 163,341,071**
Net Assets Consist of	
Undistributed net investment income	3,054,494
Net unrealized appreciation (depreciation) on:	
Investments	7,376,922
Swap contracts	999,970
Foreign currency	(7,360)
Accumulated net realized gain (loss)	(40,241,113)
Paid-in capital	192,158,158
Net assets, at value	**$ 163,341,071**
Class A	
Net Asset Value, offering and redemption price per share ($160,221,247 ÷ 23,447,650 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 6.83**
Class B	
Net Asset Value, offering and redemption price per share ($3,119,824 ÷ 453,335 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 6.88**

* 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, 2014 (Unaudited)

Investment Income		
Interest	$	4,716,740
Dividends		35,730
Income distributions — Central Cash Management Fund		3,743
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		18,254
Total income		4,774,467
Expenses:		
Management fee		407,316
Administration fee		81,463
Distribution service fee (Class B)		1,741
Recordkeeping fees (Class B)		954
Services to shareholders		892
Custodian fee		15,585
Professional fees		44,391
Reports to shareholders		20,732
Trustees' fees and expenses		4,305
Other		21,526
Total expenses before expense reductions		598,905
Expense reductions		(10,629)
Total expenses after expense reductions		588,276
Net investment income (loss)		**4,186,191**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		421,661
Swap contracts		487,614
Foreign currency		6,059
		915,334
Change in net unrealized appreciation (depreciation) on:		
Investments		3,133,624
Swap contracts		(15,161)
Foreign currency		(4,568)
		3,113,895
Net gain (loss)		**4,029,229**
Net increase (decrease) in net assets resulting from operations	**$**	**8,215,420**

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, 2014 (Unaudited)	Year Ended December 31, 2013
Operations:		
Net investment income	$ 4,186,191	$ 9,500,105
Net realized gain (loss)	915,334	3,917,069
Change in net unrealized appreciation (depreciation)	3,113,895	(804,655)
Net increase (decrease) in net assets resulting from operations	8,215,420	12,612,519
Distributions to shareholders from:		
Net investment income:		
Class A	(10,554,088)	(12,380,542)
Class B	(119,183)	(6,491)
Total distributions	(10,673,271)	(12,387,033)
Fund share transactions:		
Class A		
Proceeds from shares sold	4,131,186	37,136,318
Reinvestment of distributions	10,554,088	12,380,542
Payments for shares redeemed	(17,083,757)	(63,021,014)
Net increase (decrease) in net assets from Class A share transactions	(2,398,483)	(13,504,154)
Class B		
Proceeds from shares sold	3,059,469	674,207
Reinvestment of distributions	119,183	6,491
Payments for shares redeemed	(333,255)	(452,620)
Net increase (decrease) in net assets from Class B share transactions	2,845,397	228,078
Increase (decrease) in net assets	(2,010,937)	(13,050,590)
Net assets at beginning of period	165,352,008	178,402,598
Net assets at end of period (including undistributed net investment income of $3,054,494 and $9,541,574, respectively)	**$ 163,341,071**	**$ 165,352,008**

Other Information		
Class A		
Shares outstanding at beginning of period	23,727,813	25,717,511
Shares sold	590,798	5,481,259
Shares issued to shareholders in reinvestment of distributions	1,575,237	1,834,154
Shares redeemed	(2,446,198)	(9,305,111)
Net increase (decrease) in Class A shares	(280,163)	(1,989,698)
Shares outstanding at end of period	**23,447,650**	**23,727,813**
Class B		
Shares outstanding at beginning of period	46,339	13,214
Shares sold	436,688	98,852
Shares issued to shareholders in reinvestment of distributions	17,657	955
Shares redeemed	(47,349)	(66,682)
Net increase (decrease) in Class B shares	406,996	33,125
Shares outstanding at end of period	**453,335**	**46,339**

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

Financial Highlights

Class A	Six Months Ended 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$ 6.96**	**$ 6.93**	**$ 6.56**	**$ 6.90**	**$ 6.55**	**$ 5.30**
Income (loss) from investment operations:						
Net investment income[a]	.18	.39	.45	.51	.52	.51
Net realized and unrealized gain (loss)	.16	.14	.48	(.24)	.36	1.40
Total from investment operations	.34	.53	.93	.27	.88	1.91
Less distributions from:						
Net investment income	(.47)	(.50)	(.56)	(.61)	(.53)	(.66)
Net asset value, end of period	**$ 6.83**	**$ 6.96**	**$ 6.93**	**$ 6.56**	**$ 6.90**	**$ 6.55**
Total Return (%)	5.01[b]**	7.91[b]	14.91	3.84	14.00	39.99
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	160	165	178	169	195	197
Ratio of expenses before expense reductions (%)	.73*	.73	.72	.72	.72	.67
Ratio of expenses after expense reductions (%)	.72*	.72	.72	.72	.72	.67
Ratio of net investment income (%)	5.14*	5.69	6.68	7.59	7.90	8.81
Portfolio turnover rate (%)	45**	58	58	59	93	66

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 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$ 6.99**	**$ 6.97**	**$ 6.59**	**$ 6.93**	**$ 6.58**	**$ 5.31**
Income (loss) from investment operations:						
Net investment income[a]	.17	.36	.43	.49	.50	.49
Net realized and unrealized gain (loss)	.17	.15	.49	(.24)	.36	1.42
Total from investment operations	.34	.51	.92	.25	.86	1.91
Less distributions from:						
Net investment income	(.45)	(.49)	(.54)	(.59)	(.51)	(.64)
Net asset value, end of period	**$ 6.88**	**$ 6.99**	**$ 6.97**	**$ 6.59**	**$ 6.93**	**$ 6.58**
Total Return (%)	5.04[b]**	7.44[b]	14.70[b]	3.57	13.64	39.64
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	3	.3	.1	.1	.1	.2
Ratio of expenses before expense reductions (%)	1.12*	1.10	.99	.99	.99	.94
Ratio of expenses after expense reductions (%)	.97*	.97	.99	.99	.99	.94
Ratio of net investment income (%)	4.97*	5.29	6.42	7.33	7.63	8.54
Portfolio turnover rate (%)	45**	58	58	59	93	66

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

Deutsche High Income VIP (formerly DWS High Income VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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 average of most recent reliable bid quotation or evaluated price, as applicable, obtained from broker-dealers and loan the participations and assignments are valued at the mean of the most recent bid and ask quotations or evaluated prices, 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. 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. Equity securities are generally categorized as Level 1 securities.

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 considered 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, 2014, the Fund had securities on loan. The value of the related collateral 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 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 refinancing. 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 with only 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 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. Additionally, the Fund may be required to post securities and/or cash collateral in accordance with the terms 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, 2013, the Fund had a net tax basis capital loss carryforward of approximately $41,157,000, 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 $1,922,000 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, 2013 and has determined that no provision for income tax and/or uncertain tax provisions 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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments. 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

Swaps. A swap is a contract between two parties to exchange future cash flows at periodic intervals based on the notional amount of the swap. A bilateral swap is a transaction between the fund and a counterparty where cash flows are exchanged between the two parties. A centrally cleared swap is a transaction executed between the fund and a counterparty, then cleared by a clearing member through a central clearinghouse. The central clearinghouse serves as the counterparty, with whom the fund exchanges cash flows.

The value of a 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. Gains or losses are realized when the swap expires or is closed. Certain risks may arise when entering into swap transactions including counterparty default; liquidity; or unfavorable changes in interest rates or the value of the underlying reference security, commodity or index. In connection with bilateral swaps, securities and/or cash may be identified as collateral in accordance with the terms of the swap agreement 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 swap, 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. Upon entering into a centrally cleared swap, 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 notional amount of the swap. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value of the swap. In a cleared swap transaction, counterparty risk is minimized as the central clearinghouse acts as the counterparty.

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.

Credit default swaps are agreements between a buyer and a seller of protection against predefined credit events for the reference entity. The Fund may enter into credit default swaps 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 of a credit default swap, 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 swap 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 swaps, in which case the Fund functions as the counterparty referenced above. This involves the risk that the swap 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, 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 swaps sold by the Fund. For the six months ended June 30, 2014, the Fund entered into credit default swap agreements to gain exposure to the underlying issuer's credit quality characteristics.

Under the terms of a credit default swap, the Fund receives or makes periodic 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 swap 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, 2014 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2014, the Fund's investment in credit default swap contracts sold had a total notional value generally indicative of a range from $23,615,000 to $26,735,000.

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, 2014, 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, 2014 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2014, 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 $805,000 to $1,634,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2014 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivative	Swap Contracts
Credit Contract (a)	$ 1,001,869

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

(a) Unrealized appreciation on swap contracts. Unsettled variation margin for centrally cleared swaps is disclosed separately within the Statement of Assets and Liabilities.

Liability Derivative	Forward Contracts	Swap Contracts	Total
Credit Contracts (a)	$ —	$ (1,899)	$ (1,899)
Foreign Exchange Contracts (b)	(7,405)	—	(7,405)
	$ (7,405)	**$ (1,899)**	**$ (9,304)**

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

(a) Unrealized depreciation on swap contracts

(b) Unrealized appreciation 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, 2014 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)	$ —	$ 487,614	$ 487,614
Foreign Exchange Contracts (b)	14,619	—	14,619
	$ 14,619	**$ 487,614**	**$ 502,233**

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)	$ —	$ (15,161)	$ (15,161)
Foreign Exchange Contracts (b)	(4,552)	—	(4,552)
	$ (4,552)	**$ (15,161)**	**$ (19,713)**

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, 2014, 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 table:

Counterparty	Gross Amounts of Assets Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Collateral Received	Net Amount of Derivative Assets
Bank of America	$ 135,327	$ —	$ —	$ 135,327
Barclays Bank PLC	65,704	(1,899)	—	63,805
Credit Suisse	98,721	—	—	98,721
Goldman Sachs & Co.	163,396	—	—	163,396
JPMorgan Chase Securities, Inc.	115,596	(7,405)	—	108,191
UBS AG	44,323	—	—	44,323
	$ 623,067	**$ (9,304)**	**$ —**	**$ 613,763**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Collateral Pledged	Net Amount of Derivative Liabilities
Barclays Bank PLC	$ 1,899	$ (1,899)	$ —	$ —
JPMorgan Chase Securities, Inc.	7,405	(7,405)	—	—
	$ 9,304	**$ (9,304)**	**$ —**	**$ —**

C. Purchases and Sales of Securities

During the six months ended June 30, 2014, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury securities) aggregated $68,556,490 and $60,116,213, respectively. Purchases and sales of U.S. Treasury obligations aggregated $1,062,179 and $5,838,862, respectively.

D. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund in accordance with its investment objectives, policies and restrictions. The Advisor determines the securities, instruments and other contracts relating to investments to be purchased, sold or entered into by the Fund.

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

First $250 million	.500%
Next $750 million	.470%
Next $1.5 billion	.450%
Next $2.5 billion	.430%
Next $2.5 billion	.400%
Next $2.5 billion	.380%
Next $2.5 billion	.360%
Over $12.5 billion	.340%

Accordingly, for the six months ended June 30, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate (exclusive of any applicable waivers/reimbursements) of 0.50% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 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	.72%
Class B	.97%

For the six months ended June 30, 2014, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 9,583
Class B	1,046
	$ 10,629

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, 2014, the Administration Fee was $81,463, of which $13,474 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it

receives from the Fund. For the six months ended June 30, 2014, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2014
Class A	$ 147	$ 72
Class B	20	5
	$ 167	**$ 77**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plans, DeAWM Distributors, Inc. ("DDI") 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, 2014, the Distribution Service Fee was $1,741, of which $641 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $9,750, of which $3,084 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 Deutsche 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 Deutsche 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 Deutsche 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 Deutsche Variable NAV Money Fund.

Security Lending Fees. Deutsche Bank AG serves as lending agent for the Fund. For the six months ended June 30, 2014, the Fund incurred lending agent fees to Deutsche Bank AG for the amount of $1,608.

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, 2014, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 61% and 29%. One participating insurance company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 97%.

G. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

H. Fund Name Change

Effective August 11, 2014, the "DWS Funds" were rebranded "Deutsche Funds."

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, 2014 to June 30, 2014).

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, 2014

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,050.10	$1,050.40
Expenses Paid per $1,000*	$ 3.66	$ 4.93
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$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**
Deutsche Variable Series II — Deutsche 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 the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of DWS High Income VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2013.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2013, all but one of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Asset Allocation Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent Trustees were also advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG, a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

As part of the contract review process, the Board carefully considered the fees and expenses of each DWS fund overseen by the Board in light of the fund's performance. In many cases, this led to a negotiation with DIMA of lower expense caps as part of the 2012 and 2013 contract review processes than had previously been in place. As part of these negotiations, the Board indicated that it would consider relaxing these new lower caps in future years following sustained improvements in performance, among other considerations.

In June 2012, Deutsche Bank AG ("DB"), DIMA's parent company, announced that DB would combine its Asset Management (of which DIMA was a part) and Wealth Management divisions. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that it has, and will continue to, reinvest a significant portion of the substantial savings it expects to realize by combining its Asset Management and Wealth Management divisions into the new Asset and Wealth Management ("AWM") division, including ongoing enhancements to its investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service.

The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2012, the Fund's performance (Class A shares) was in the 2nd quartile, 3rd quartile and 3rd quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one-year period and has underperformed its benchmark in the three- and five-year periods ended December 31, 2012.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2012). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be equal to the median of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2012, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive.

The information considered by the Board as part of its review of management fees included information regarding fees charged by DIMA and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DIMA's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and their independent counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Notes

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2HI-3 (R-028385-3 8/14)

Deutsche Asset
& Wealth Management

June 30, 2014

Semiannual Report

Deutsche Variable Series I

(formerly DWS Variable Series I)

Deutsche International VIP

(formerly DWS International VIP)

Contents

Letter to Shareholders

Dear Shareholder:

I am very pleased to tell you that the DWS funds have been renamed Deutsche funds, aligning more closely with the Deutsche Asset & Wealth Management brand. We are proud to adopt the Deutsche name — a brand that fully represents the global access, discipline and intelligence that support all of our products and services.

Deutsche Asset & Wealth Management combines the asset management and wealth management divisions of Deutsche Bank to deliver a comprehensive suite of active, passive and alternative investment capabilities. Your investment in the Deutsche funds means you have access to the thought leadership and resources of one of the world's largest and most influential financial institutions.

In conjunction with your fund's name change, please note that the Deutsche funds' Web address has changed as well. The former dws-investments.com is now deutschefunds.com.

In addition, key service providers have been renamed as follows:

Former Name	New name, effective August 11, 2014
DWS Investments Distributors, Inc.	DeAWM Distributors, Inc.
DWS Trust Company	DeAWM Trust Company
DWS Investments Service Company	DeAWM Service Company

These changes have no effect on the day-to-day management of your investment, and there is no action required on your part. You will continue to experience the benefits that come from our decades of experience, in-depth research and worldwide network of investment professionals.

Thanks for your continued support. We appreciate your trust and the opportunity to put our capabilities to work for you.

Best regards,

Brian Binder
President, Deutsche Funds

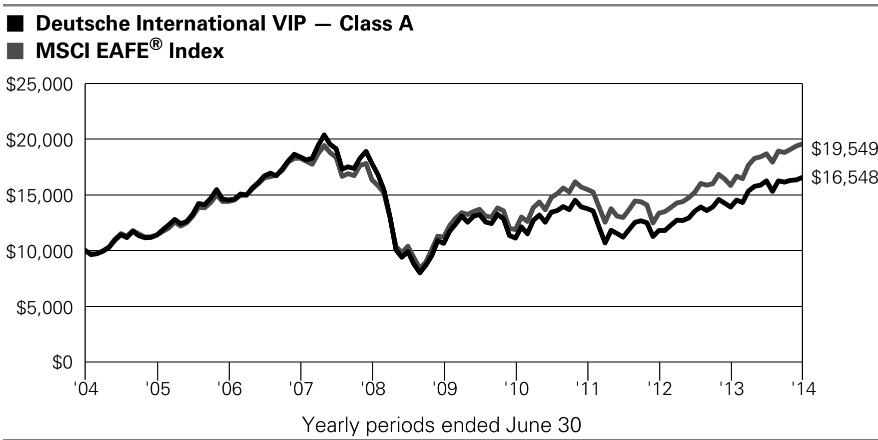
Performance Summary

June 30, 2014 (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, 2014 are 1.02% and 1.30% 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

Deutsche International VIP		**6-Month‡**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class A	Growth of $10,000	$10,193	$11,916	$12,035	$15,551	$16,548
	Average annual total return	1.93%	19.16%	6.37%	9.23%	5.17%
MSCI EAFE® Index	Growth of $10,000	$10,478	$12,357	$12,631	$17,441	$19,549
	Average annual total return	4.78%	23.57%	8.10%	11.77%	6.93%

Deutsche International VIP		**6-Month‡**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$10,177	$11,880	$11,947	$15,347	$16,080
	Average annual total return	1.77%	18.80%	6.11%	8.94%	4.86%
MSCI EAFE® Index	Growth of $10,000	$10,478	$12,357	$12,631	$17,441	$19,549
	Average annual total return	4.78%	23.57%	8.10%	11.77%	6.93%

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)	**6/30/14**	**12/31/13**
Common Stocks	99%	97%
Cash Equivalents	1%	3%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/14**	**12/31/13**
Continental Europe	42%	53%
United Kingdom	25%	15%
Japan	21%	20%
Asia (excluding Japan)	6%	4%
Australia	6%	8%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/14**	**12/31/13**
Materials	24%	6%
Industrials	18%	13%
Energy	16%	6%
Health Care	14%	9%
Utilities	12%	4%
Consumer Discretionary	8%	14%
Information Technology	4%	5%
Telecommunication Services	2%	8%
Consumer Staples	2%	9%
Financials	—	26%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Manager

Di Kumble, CFA
Portfolio Manager

	Shares	Value ($)
Common Stocks 98.9%		
Australia 5.7%		
BHP Billiton Ltd.	82,484	2,792,240
Origin Energy Ltd.	208,243	2,870,822
Woodside Petroleum Ltd.	76,038	2,944,719
(Cost $8,416,114)		**8,607,781**
Austria 1.9%		
OMV AG (Cost $2,933,852)	63,932	**2,888,890**
Denmark 2.1%		
A P Moller-Maersk AS "B" (Cost $2,922,656)	1,246	**3,096,207**
Finland 2.4%		
Fortum Oyj (Cost $2,805,274)	131,056	**3,519,113**
France 5.9%		
GDF Suez	109,812	3,023,100
Sanofi	27,044	2,872,893
Total SA	41,480	2,997,829
(Cost $8,174,611)		**8,893,822**
Germany 9.8%		
Continental AG	12,520	2,899,846
E.ON SE	152,016	3,138,986
Hochtief AG	31,243	2,704,190
K+S AG (Registered) (a)	86,269	2,836,848
Merck KGaA	34,802	3,020,812
(Cost $14,505,718)		**14,600,682**
Hong Kong 2.0%		
CLP Holdings Ltd. (Cost $2,914,261)	365,000	**2,985,781**
Japan 20.7%		
Asahi Kasei Corp.	426,000	3,258,970
Bridgestone Corp. (a)	79,500	2,781,970
Daiichi Sankyo Co., Ltd.	172,800	3,223,849
Kyocera Corp.	63,700	3,023,243
Nitto Denko Corp.	65,400	3,064,546
Otsuka Holdings Co., Ltd.	100,700	3,121,248
Sekisui House Ltd.	241,100	3,305,739
Sumitomo Chemical Co., Ltd.	775,000	2,930,013
Sumitomo Metal Mining Co., Ltd.	189,000	3,069,000
Toyota Industries Corp.	62,200	3,211,154
(Cost $28,369,482)		**30,989,732**
Luxembourg 2.0%		
Tenaris SA (Cost $2,904,467)	128,001	**3,014,675**
Netherlands 6.0%		
Koninklijke (Royal) KPN NV*	852,293	3,105,507
Koninklijke Ahold NV	152,516	2,863,199
Koninklijke DSM NV	40,537	2,952,435
(Cost $8,744,183)		**8,921,141**
Norway 2.0%		
Statoil ASA (Cost $2,982,537)	99,867	**3,067,395**
Singapore 4.0%		
Keppel Corp., Ltd.	345,000	2,985,444
Singapore Airlines Ltd.	354,000	2,941,246
(Cost $5,832,638)		**5,926,690**
Sweden 3.9%		
Atlas Copco AB "A"	99,391	2,872,448
Telefonaktiebolaget LM Ericsson "B"	240,944	2,911,933
(Cost $5,794,181)		**5,784,381**
Switzerland 5.9%		
Novartis AG (Registered)	33,982	3,077,080
Syngenta AG (Registered)	7,422	2,764,419
Transocean Ltd. (a) (b)	67,600	3,044,028
(Cost $8,706,494)		**8,885,527**
United Kingdom 24.6%		
Anglo American PLC	113,191	2,770,125
Antofagasta PLC	218,333	2,850,988
AstraZeneca PLC	36,845	2,736,968
BAE Systems PLC	428,771	3,176,614
Centrica PLC	516,793	2,764,758
easyJet PLC	105,613	2,467,184
GlaxoSmithKline PLC	104,015	2,784,096
Petrofac Ltd.	119,070	2,451,430
Rexam PLC	308,255	2,822,380
Rio Tinto PLC	53,975	2,871,409
Rolls-Royce Holdings PLC*	167,744	3,068,854
Smiths Group PLC	133,285	2,958,508
SSE PLC	114,625	3,073,971
(Cost $37,658,633)		**36,797,285**
Total Common Stocks (Cost $143,665,101)		**147,979,102**
Securities Lending Collateral 6.0%		
Daily Assets Fund Institutional, 0.08% (c) (d) (Cost $8,945,664)	8,945,664	**8,945,664**
Cash Equivalents 0.9%		
Central Cash Management Fund, 0.06% (c) (Cost $1,403,095)	1,403,095	**1,403,095**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $154,013,860)†	105.8	**158,327,861**
Other Assets and Liabilities, Net	(5.8)	**(8,617,698)**
Net Assets	100.0	**149,710,163**

* Non-income producing security.

† The cost for federal income tax purposes was $154,035,993. At June 30, 2014, net unrealized appreciation for all securities based on tax cost was $4,291,868. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $6,442,610 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,150,742.

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

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at June 30, 2014 amounted to $8,656,326, which is 5.8% of net assets.

(b) Listed on the New York Stock Exchange.

(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.

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2014 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				
Australia	$ —	$ 8,607,781	$ —	$ 8,607,781
Austria	—	2,888,890	—	2,888,890
Denmark	—	3,096,207	—	3,096,207
Finland	—	3,519,113	—	3,519,113
France	—	8,893,822	—	8,893,822
Germany	—	14,600,682	—	14,600,682
Hong Kong	—	2,985,781	—	2,985,781
Japan	—	30,989,732	—	30,989,732
Luxembourg	—	3,014,675	—	3,014,675
Netherlands	—	8,921,141	—	8,921,141
Norway	—	3,067,395	—	3,067,395
Singapore	—	5,926,690	—	5,926,690
Sweden	—	5,784,381	—	5,784,381
Switzerland	3,044,028	5,841,499	—	8,885,527
United Kingdom	—	36,797,285	—	36,797,285
Short-Term Investments (e)	10,348,759	—	—	10,348,759
Total	**$ 13,392,787**	**$144,935,074**	**$ —**	**$158,327,861**

There have been no transfers between fair value measurement levels during the period ended June 30, 2014.

(e) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of June 30, 2014 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $143,665,101) — including $8,656,326 of securities loaned	$ 147,979,102
Investment in Daily Assets Fund Institutional (cost $8,945,664)*	8,945,664
Investment in Central Cash Management Fund (cost $1,403,095)	1,403,095
Total investments, at value (cost $154,013,860)	158,327,861
Foreign currency, at value (cost $10,744)	10,292
Receivable for Fund shares sold	30,706
Dividends receivable	141,431
Interest receivable	4,198
Foreign taxes recoverable	428,324
Other assets	1,103
Total assets	158,943,915
Liabilities	
Payable upon return of securities loaned	8,945,664
Payable for Fund shares redeemed	100,520
Accrued Trustees' fees	356
Accrued management fee	91,420
Other accrued expenses and payables	95,792
Total liabilities	9,233,752
Net assets, at value	**$ 149,710,163**
Net Assets Consist of	
Undistributed net investment income	4,015,618
Net unrealized appreciation (depreciation) on:	
Investments	4,314,001
Foreign currency	28,901
Accumulated net realized gain (loss)	(106,446,763)
Paid-in capital	247,798,406
Net assets, at value	**$ 149,710,163**
Class A	
Net Asset Value, offering and redemption price per share ($149,399,820 ÷ 16,459,064 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 9.08**
Class B	
Net Asset Value, offering and redemption price per share ($310,343 ÷ 34,097 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 9.10**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2014 (Unaudited)

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $304,445)	$ 4,782,264
Interest	196
Income distributions — Central Cash Management Fund	749
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	43,844
Total income	4,827,053
Expenses:	
Management fee	579,699
Administration fee	73,380
Services to shareholders	1,634
Distribution service fee (Class B)	373
Custodian fee	25,462
Professional fees	35,837
Reports to shareholders	21,545
Trustees' fees and expenses	4,043
Other	13,042
Total expenses before expense reductions	755,015
Expense reductions	(42,027)
Total expenses after expense reductions	712,988
Net investment income (loss)	**4,114,065**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	20,921,510
Futures	94,022
Foreign currency	25,043
	21,040,575
Change in net unrealized appreciation (depreciation) on:	
Investments	(22,205,704)
Futures	(151,875)
Foreign currency	(4,670)
	(22,362,249)
Net gain (loss)	**(1,321,674)**
Net increase (decrease) in net assets resulting from operations	**$ 2,792,391**

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, 2014 (Unaudited)	Year Ended December 31, 2013
Operations:		
Net investment income (loss)	$ 4,114,065	$ 2,656,367
Net realized gain (loss)	21,040,575	23,022,418
Change in net unrealized appreciation (depreciation)	(22,362,249)	4,153,981
Net increase (decrease) in net assets resulting from operations	2,792,391	29,832,766
Distributions to shareholders from:		
Net investment income:		
Class A	(2,472,725)	(7,421,568)
Class B	(4,273)	(14,321)
Total distributions	(2,476,998)	(7,435,889)
Fund share transactions:		
Class A		
Proceeds from shares sold	4,032,231	9,888,983
Reinvestment of distributions	2,472,725	7,421,568
Payments for shares redeemed	(8,630,828)	(118,556,623)
Net increase (decrease) in net assets from Class A share transactions	(2,125,872)	(101,246,072)
Class B		
Proceeds from shares sold	6,969	37,829
Reinvestment of distributions	4,273	14,321
Payments for shares redeemed	(7,518)	(64,353)
Net increase (decrease) in net assets from Class B share transactions	3,724	(12,203)
Increase (decrease) in net assets	(1,806,755)	(78,861,398)
Net assets at beginning of period	151,516,918	230,378,316
Net assets at end of period (including undistributed net investment income of $4,015,618 and $2,378,551, respectively)	**$ 149,710,163**	**$ 151,516,918**

Other Information		
Class A		
Shares outstanding at beginning of period	16,697,511	28,915,018
Shares sold	451,867	1,188,292
Shares issued to shareholders in reinvestment of distributions	279,089	930,021
Shares redeemed	(969,403)	(14,335,820)
Net increase (decrease) in Class A shares	(238,447)	(12,217,507)
Shares outstanding at end of period	**16,459,064**	**16,697,511**
Class B		
Shares outstanding at beginning of period	33,679	35,208
Shares sold	779	4,565
Shares issued to shareholders in reinvestment of distributions	481	1,790
Shares redeemed	(842)	(7,884)
Net increase (decrease) in Class B shares	418	(1,529)
Shares outstanding at end of period	**34,097**	**33,679**

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

Financial Highlights

Class A	Six Months Ended 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$ 9.06**	**$ 7.96**	**$ 6.74**	**$ 8.22**	**$ 8.26**	**$ 6.52**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.25	.14	.22	.15	.13	.12
Net realized and unrealized gain (loss)	(.08)	1.41	1.16	(1.49)	(.00)***	1.93
Total from investment operations	.17	1.55	1.38	(1.34)	.13	2.05
Less distributions from:						
Net investment income	(.15)	(.45)	(.16)	(.14)	(.17)	(.31)
Net asset value, end of period	**$ 9.08**	**$ 9.06**	**$ 7.96**	**$ 6.74**	**$ 8.22**	**$ 8.26**
Total Return (%)	1.93[b]**	20.23[b]	20.65	(16.67)	1.62[b]	33.52
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	149	151	230	211	288	344
Ratio of expenses before expense reductions (%)	1.03*	1.02	.98	1.00	.99	.94
Ratio of expenses after expense reductions (%)	.97*	1.01	.98	1.00	.99	.94
Ratio of net investment income (loss) (%)	2.78[c]	1.64	2.99	1.98	1.68	1.69
Portfolio turnover rate (%)	113**	97	85	174	228	81

a Based on average shares outstanding during the period.

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

c Not annualized. The ratio for the six months ended June 30, 2014 has not been annualized since the Fund believes it would not be appropriate because the Fund's dividend income is not earned ratably throughout the fiscal year.

* Annualized

** Not annualized

*** Amount is less than $.005.

Class B	Six Months Ended 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$ 9.07**	**$ 7.96**	**$ 6.75**	**$ 8.22**	**$ 8.26**	**$ 6.52**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.24	.13	.20	.13	.11	.10
Net realized and unrealized gain (loss)	(.08)	1.41	1.15	(1.48)	(.00)***	1.94
Total from investment operations	.16	1.54	1.35	(1.35)	.11	2.04
Less distributions from:						
Net investment income	(.13)	(.43)	(.14)	(.12)	(.15)	(.30)
Net asset value, end of period	**$ 9.10**	**$ 9.07**	**$ 7.96**	**$ 6.75**	**$ 8.22**	**$ 8.26**
Total Return (%)	1.77[b]**	20.01[b]	20.13	(16.77)	1.33[b]	32.89
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	.31	.31	.28	.24	.36	.50
Ratio of expenses before expense reductions (%)	1.30*	1.30	1.26	1.28	1.26	1.22
Ratio of expenses after expense reductions (%)	1.23*	1.27	1.26	1.28	1.26	1.22
Ratio of net investment income (loss) (%)	2.65[c]	1.62	2.73	1.70	1.41	1.42
Portfolio turnover rate (%)	113**	97	85	174	228	81

a Based on average shares outstanding during the period.

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

c Not annualized. The ratio for the six months ended June 30, 2014 has not been annualized since the Fund believes it would not be appropriate because the Fund's dividend income is not earned ratably throughout the fiscal year.

* Annualized

** Not annualized

*** Amount is less than $.005.

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

Deutsche Variable Series I (formerly 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: Deutsche Bond VIP, Deutsche Core Equity VIP, Deutsche Capital Growth VIP, Deutsche Global Small Cap VIP and Deutsche International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds" and formerly known as DWS Bond VIP, DWS Core Equity VIP, DWS Capital Growth VIP, DWS Global Small Cap Growth VIP and DWS International VIP, respectively). These financial statements report on Deutsche 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities are generally categorized as Level 1 securities. 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 considered 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, 2014, the Fund had securities on loan. The value of the related collateral 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, 2013, the Fund had a net tax basis capital loss carryforward of approximately $127,313,000, 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 $2,726,000 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, 2013 and has determined that no provision for income tax and/or uncertain tax provisions 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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

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, 2014, the Fund entered into futures contracts 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.

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.

There were no open futures contracts at June 30, 2014. For the six months ended June 30, 2014, the investment in futures contracts purchased had a total notional value generally indicative of a range from $0 to approximately $4,603,000.

The amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2014 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)	$ 94,022

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)	$ (151,875)

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, 2014, purchases and sales of investment securities (excluding short-term investments) aggregated $166,409,186 and $164,536,996, 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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate (exclusive of any applicable waivers/reimbursements) of 0.79% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 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	.97%
Class B	1.23%

For the six months ended June 30, 2014, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 41,918
Class B	109
	$ 42,027

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, 2014, the Administration Fee was $73,380, of which $12,246 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2014, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2014
Class A	$ 327	$ 163
Class B	40	19
	$ 367	**$ 182**

Distribution Service Agreement. DeAWM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Series' Distributor. In accordance with the Master Distribution Plan, DDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, DDI 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, 2014, the Distribution Service Fee aggregated $373, of which $63 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $7,662, of which $318 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 Deutsche 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 Deutsche 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 Deutsche 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 Deutsche 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, 2014, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $3,820.

E. Ownership of the Fund

At June 30, 2014, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 24%, 12% and 11%, respectively. One participating insurance company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 90%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

G. Change in Investment Strategy

Effective May 1, 2014, the Fund changed its management process and investment team. Portfolio management intends to select approximately fifty stocks with the lowest positive Cash Return on Capital Invested (CROCI®) Economic Price Earnings ratio from a universe comprising approximately 330 of the largest equities by market capitalization in the MSCI EAFE Index, excluding financial stocks. The CROCI® Economic Price Earnings Ratio (CROCI® P/E Ratio) is a proprietary measure of company valuation using the same relationship between valuation and return as an accounting P/E ratio (i.e., price/book value divided by return on equity). At times, the number of stocks held in the Fund may differ from fifty stocks as a result of corporate actions, mergers or other events. The CROCI® strategy is supplied by the CROCI® Investment Strategy and Valuation Group, a unit within Deutsche Asset & Wealth Management, through a licensing agreement with the Fund's investment advisor. For a full description of the Fund's investment strategy, please see the Fund's current prospectus dated May 1, 2014.

H. Fund Name Change

Effective August 11, 2014, the "DWS Funds" were rebranded "Deutsche Funds."

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, 2014 to June 30, 2014).

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, 2014

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,019.30	$1,017.70
Expenses Paid per $1,000*	$ 4.86	$ 6.15
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,019.98	$1,018.70
Expenses Paid per $1,000*	$ 4.86	$ 6.16

* 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**
Deutsche Variable Series I — Deutsche International VIP	.97%	1.23%

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 the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting"at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of DWS International VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2013.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2013, all of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent Trustees were also advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG, a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

As part of the contract review process, the Board carefully considered the fees and expenses of each DWS fund overseen by the Board in light of the fund's performance. In many cases, this led to a negotiation with DIMA of lower expense caps as part of the 2012 and 2013 contract review processes than had previously been in place. As part of these negotiations, the Board indicated that it would consider relaxing these new lower caps in future years following sustained improvements in performance, among other considerations.

In June 2012, Deutsche Bank AG ("DB"), DIMA's parent company, announced that DB would combine its Asset Management (of which DIMA was a part) and Wealth Management divisions. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that it has, and will continue to, reinvest a significant portion of the substantial savings it expects to realize by combining its Asset Management and Wealth Management divisions into the new Asset and Wealth Management ("AWM") division, including ongoing enhancements to its investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service.

The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2012, the Fund's performance (Class A shares) was in the 1st quartile, 4th quartile and 4th quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one-year period and has underperformed its benchmark in the three- and five-year periods ended December 31, 2012. The Board noted the disappointing investment performance of the Fund in some past periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board observed that the Fund had experienced improved relative performance in 2012 and during the first seven months of 2013. The Board recognized the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the DWS fund complex.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were approximately at the median of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2012). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be approximately at the median of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2012) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size).

The information considered by the Board as part of its review of management fees included information regarding fees charged by DIMA and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule

represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DIMA's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and their independent counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Notes

Notes

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS1int-3 (R-028378-3 8/14)

Deutsche Asset
& Wealth Management

June 30, 2014

Semiannual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche Large Cap Value VIP

(formerly DWS Large Cap Value 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. The Fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

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

Letter to Shareholders

Dear Shareholder:

I am very pleased to tell you that the DWS funds have been renamed Deutsche funds, aligning more closely with the Deutsche Asset & Wealth Management brand. We are proud to adopt the Deutsche name — a brand that fully represents the global access, discipline and intelligence that support all of our products and services.

Deutsche Asset & Wealth Management combines the asset management and wealth management divisions of Deutsche Bank to deliver a comprehensive suite of active, passive and alternative investment capabilities. Your investment in the Deutsche funds means you have access to the thought leadership and resources of one of the world's largest and most influential financial institutions.

In conjunction with your fund's name change, please note that the Deutsche funds' Web address has changed as well. The former dws-investments.com is now deutschefunds.com.

In addition, key service providers have been renamed as follows:

Former Name	New name, effective August 11, 2014
DWS Investments Distributors, Inc.	DeAWM Distributors, Inc.
DWS Trust Company	DeAWM Trust Company
DWS Investments Service Company	DeAWM Service Company

These changes have no effect on the day-to-day management of your investment, and there is no action required on your part. You will continue to experience the benefits that come from our decades of experience, in-depth research and worldwide network of investment professionals.

Thanks for your continued support. We appreciate your trust and the opportunity to put our capabilities to work for you.

Best regards,

Brian Binder
President, Deutsche Funds

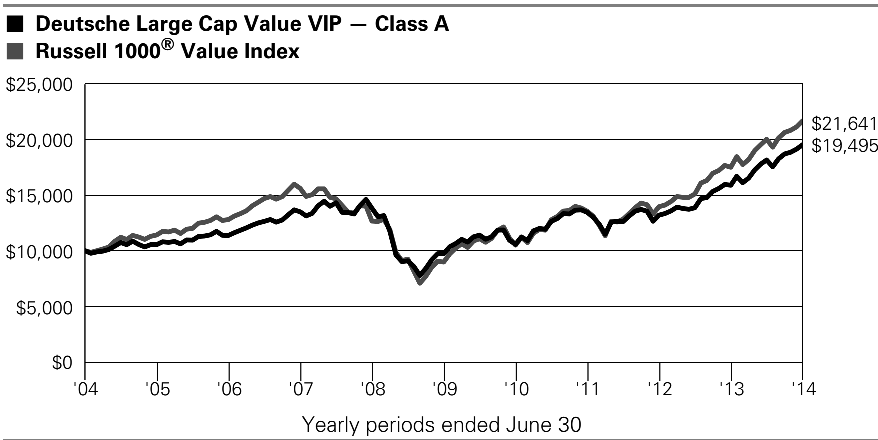
Performance Summary

June 30, 2014 (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, 2014 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 Deutsche 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

Deutsche Large Cap Value VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,753	$12,293	$14,499	$20,017	$19,495
	Average annual total return	7.53%	22.93%	13.18%	14.89%	6.90%
Russell 1000® Value Index	Growth of $10,000	$10,828	$12,381	$15,982	$24,095	$21,641
	Average annual total return	8.28%	23.81%	16.92%	19.23%	8.03%

Deutsche Large Cap Value VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,731	$12,257	$14,362	$19,716	$18,842
	Average annual total return	7.31%	22.57%	12.83%	14.54%	6.54%
Russell 1000® Value Index	Growth of $10,000	$10,828	$12,381	$15,982	$24,095	$21,641
	Average annual total return	8.28%	23.81%	16.92%	19.23%	8.03%

The growth of $10,000 is cumulative.

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

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/14**	**12/31/13**
Common Stocks	96%	99%
Cash Equivalents	4%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/14**	**12/31/13**
Financials	22%	24%
Health Care	18%	14%
Energy	16%	14%
Information Technology	13%	11%
Consumer Staples	8%	11%
Consumer Discretionary	6%	8%
Industrials	6%	7%
Utilities	6%	5%
Telecommunication Services	3%	2%
Materials	2%	4%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management Team

Thomas Schuessler, PhD
Lead Portfolio Manager

Peter Steffen, CFA
Oliver Pfeil, PhD
Portfolio Managers

	Shares	Value ($)
Common Stocks 96.4%		
Consumer Discretionary 6.3%		
Automobiles 0.8%		
Ford Motor Co.	200,000	**3,448,000**
Hotels, Restaurants & Leisure 0.9%		
McDonald's Corp.	40,000	**4,029,600**
Household Durables 0.9%		
Jarden Corp.*	30,000	1,780,500
MDC Holdings, Inc. (a)	75,000	2,271,750
		4,052,250
Media 3.4%		
Comcast Corp. "A"	170,000	9,125,600
News Corp. "A"*	100,000	1,794,000
Time Warner, Inc.	30,000	2,107,500
Walt Disney Co.	27,500	2,357,850
		15,384,950
Textiles, Apparel & Luxury Goods 0.3%		
Columbia Sportswear Co.	13,615	**1,125,280**
Consumer Staples 7.6%		
Beverages 1.3%		
PepsiCo, Inc.	67,500	**6,030,450**
Food & Staples Retailing 2.0%		
CVS Caremark Corp.	55,000	4,145,350
Sysco Corp. (a)	50,000	1,872,500
Walgreen Co.	37,500	2,779,875
		8,797,725
Food Products 1.0%		
Kellogg Co.	40,000	2,628,000
Tyson Foods, Inc. "A"	45,000	1,689,300
		4,317,300
Household Products 2.5%		
Energizer Holdings, Inc.	20,000	2,440,600
Procter & Gamble Co.	112,500	8,841,375
		11,281,975
Tobacco 0.8%		
Altria Group, Inc.	90,000	**3,774,600**
Energy 15.4%		
Energy Equipment & Services 1.1%		
Diamond Offshore Drilling, Inc. (a)	50,000	2,481,500
National Oilwell Varco, Inc.	32,500	2,676,375
		5,157,875
Oil, Gas & Consumable Fuels 14.3%		
Apache Corp.	55,000	5,534,100
ARC Resources Ltd. (a)	49,896	1,519,255
Canadian Oil Sands Ltd.	180,000	4,078,909
Chevron Corp.	82,500	10,770,375
ConocoPhillips	42,500	3,643,525
Devon Energy Corp.	40,000	3,176,000
Exxon Mobil Corp.	165,000	16,612,200
Hess Corp. (a)	25,000	2,472,250
Occidental Petroleum Corp.	87,500	8,980,125
Parkland Fuel Corp. (a)	57,100	1,100,207
Phillips 66	35,000	2,815,050
Suncor Energy, Inc.	75,000	3,197,250
		63,899,246

	Shares	Value ($)
Financials 20.9%		
Banks 10.8%		
Bank of America Corp.	350,000	5,379,500
Canadian Imperial Bank of Commerce (a)	40,000	3,639,942
Citigroup, Inc.	200,000	9,420,000
JPMorgan Chase & Co.	200,000	11,524,000
PNC Financial Services Group, Inc.	90,000	8,014,500
U.S. Bancorp.	75,000	3,249,000
Wells Fargo & Co.	135,000	7,095,600
		48,322,542
Capital Markets 2.4%		
Bank of New York Mellon Corp.	70,000	2,623,600
BlackRock, Inc.	7,000	2,237,200
Franklin Resources, Inc.	62,500	3,615,000
Legg Mason, Inc. (a)	47,500	2,437,225
		10,913,025
Consumer Finance 1.3%		
Capital One Financial Corp.	70,000	**5,782,000**
Insurance 6.0%		
ACE Ltd.	20,000	2,074,000
Allstate Corp.	47,500	2,789,200
American International Group, Inc.	52,500	2,865,450
Fidelity National Financial, Inc. "A"	65,000	2,129,400
First American Financial Corp.	77,500	2,153,725
PartnerRe Ltd.	27,500	3,003,275
Prudential Financial, Inc.	75,000	6,657,750
The Travelers Companies, Inc.	42,500	3,997,975
Unum Group	29,260	1,017,078
		26,687,853
Real Estate Management & Development 0.4%		
Brookfield Asset Management, Inc. "A" (a)	40,000	**1,760,800**
Health Care 17.4%		
Biotechnology 1.1%		
Amgen, Inc.	40,000	**4,734,800**
Health Care Equipment & Supplies 2.9%		
Abbott Laboratories	50,000	2,045,000
C.R. Bard, Inc.	35,000	5,005,350
Medtronic, Inc.	95,000	6,057,200
		13,107,550
Health Care Providers & Services 3.7%		
Aetna, Inc.	27,500	2,229,700
Cardinal Health, Inc.	57,500	3,942,200
UnitedHealth Group, Inc.	35,000	2,861,250
WellPoint, Inc.	70,000	7,532,700
		16,565,850
Life Sciences Tools & Services 0.6%		
Agilent Technologies, Inc.	45,000	**2,584,800**
Pharmaceuticals 9.1%		
Eli Lilly & Co.	80,000	4,973,600
Johnson & Johnson	82,500	8,631,150
Merck & Co., Inc.	155,000	8,966,750
Pfizer, Inc.	517,500	15,359,400
Questcor Pharmaceuticals, Inc. (a)	32,500	3,005,925
		40,936,825

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

	Shares	Value ($)
Industrials 6.2%		
Aerospace & Defense 0.8%		
Raytheon Co.	37,500	**3,459,375**
Airlines 0.5%		
Southwest Airlines Co. (a)	80,000	**2,148,800**
Commercial Services & Supplies 0.8%		
ABM Industries, Inc.	42,877	1,156,821
Republic Services, Inc.	65,000	2,468,050
		3,624,871
Industrial Conglomerates 3.2%		
Danaher Corp.	35,000	2,755,550
General Electric Co.	450,000	11,826,000
		14,581,550
Machinery 0.9%		
AGCO Corp.	70,000	**3,935,400**
Information Technology 12.1%		
Communications Equipment 2.2%		
Brocade Communications Systems, Inc.	137,500	1,265,000
Cisco Systems, Inc.	350,000	8,697,500
		9,962,500
Electronic Equipment, Instruments & Components 0.8%		
Tech Data Corp.*	56,514	**3,533,255**
IT Services 0.4%		
Xerox Corp.	125,000	**1,555,000**
Semiconductors & Semiconductor Equipment 2.3%		
Analog Devices, Inc.	60,000	3,244,200
Intel Corp.	150,000	4,635,000
Texas Instruments, Inc.	55,000	2,628,450
		10,507,650
Software 3.5%		
Activision Blizzard, Inc.	125,000	2,787,500
Microsoft Corp.	160,000	6,672,000
Oracle Corp.	150,000	6,079,500
		15,539,000
Technology Hardware, Storage & Peripherals 2.9%		
Apple, Inc.	49,000	4,553,570
EMC Corp.	82,500	2,173,050
Hewlett-Packard Co.	107,500	3,620,600
Western Digital Corp.	30,000	2,769,000
		13,116,220
Materials 1.8%		
Chemicals 1.5%		
Celanese Corp. "A"	35,000	2,249,800
CF Industries Holdings, Inc.	7,500	1,803,975
LyondellBasell Industries NV "A"	25,000	2,441,250
		6,495,025
Paper & Forest Products 0.3%		
Western Forest Products, Inc.	675,000	**1,410,665**
Telecommunication Services 3.2%		
Diversified Telecommunication Services		
AT&T, Inc.	140,000	4,950,400
BCE, Inc.	60,460	2,742,466
Verizon Communications, Inc.	140,000	6,850,200
		14,543,066
Utilities 5.5%		
Electric Utilities 3.0%		
American Electric Power Co., Inc.	42,500	2,370,225
Duke Energy Corp.	27,500	2,040,225
Entergy Corp.	25,000	2,052,250
Pinnacle West Capital Corp.	30,000	1,735,200
PPL Corp.	62,500	2,220,625
Southern Co. (a)	65,000	2,949,700
		13,368,225
Gas Utilities 0.8%		
UGI Corp.	70,000	**3,535,000**
Independent Power & Renewable Electricity Producers 0.5%		
AES Corp.	150,000	**2,332,500**
Multi-Utilities 1.2%		
Public Service Enterprise Group, Inc.	80,000	3,263,200
Wisconsin Energy Corp.	50,000	2,346,000
		5,609,200
Total Common Stocks (Cost $328,855,658)		**431,952,598**
Securities Lending Collateral 4.6%		
Daily Assets Fund Institutional, 0.08% (b) (c) (Cost $20,493,704)	20,493,704	**20,493,704**
Cash Equivalents 4.3%		
Central Cash Management Fund, 0.06% (b) (Cost $19,448,993)	19,448,993	**19,448,993**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $368,798,355)†	105.3	**471,895,295**
Other Assets and Liabilities, Net	(5.3)	**(23,749,392)**
Net Assets	100.0	**448,145,903**

* Non-income producing security.

† The cost for federal income tax purposes was $369,960,994. At June 30, 2014, net unrealized appreciation for all securities based on tax cost was $101,934,301. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $103,192,767 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,258,466.

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at June 30, 2014 amounted to $19,964,910, which is 4.5% 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.

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2014 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)	$431,952,598	$ —	$ —	$431,952,598
Short-Term Investments	39,942,697	—	—	39,942,697
Total	**$471,895,295**	**$ —**	**$ —**	**$471,895,295**

There have been no transfers between fair value measurement levels during the period ended June 30, 2014.

(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, 2014 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $328,855,658) — including $19,964,910 of securities loaned	$ 431,952,598
Investment in Daily Assets Fund Institutional (cost $20,493,704)*	20,493,704
Investment in Central Cash Management Fund (cost $19,448,993)	19,448,993
Total investments in securities, at value (cost $368,798,355)	471,895,295
Cash	47,441
Foreign currency, at value (cost $50,531)	52,013
Receivable for investments sold	32,664,997
Receivable for Fund shares sold	47,594
Dividends receivable	553,196
Interest receivable	23,110
Foreign taxes recoverable	3,840
Other assets	2,527
Total assets	505,290,013
Liabilities	
Payable upon return of securities loaned	20,493,704
Payable for investments purchased	35,766,063
Payable for Fund shares redeemed	567,426
Accrued management fee	218,519
Accrued Trustees' fees	994
Other accrued expenses and payables	97,404
Total liabilities	57,144,110
Net assets, at value	**$ 448,145,903**
Net Assets Consist of	
Undistributed net investment income	3,485,826
Net unrealized appreciation (depreciation) on:	
Investments	103,096,940
Foreign currency	2,641
Accumulated net realized gain (loss)	(57,506,818)
Paid-in capital	399,067,314
Net assets, at value	**$ 448,145,903**
Class A	
Net Asset Value, offering and redemption price per share ($442,899,036 ÷ 26,242,841 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 16.88**
Class B	
Net Asset Value, offering and redemption price per share ($5,246,867 ÷ 310,056 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 16.92**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended June 30, 2014 (Unaudited)

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $48,860)	$ 5,095,765
Income distributions — Central Cash Management Fund	3,858
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	81,697
Total income	5,181,320
Expenses:	
Management fee	1,379,701
Administration fee	215,793
Services to shareholders	2,903
Record keeping fees (Class B)	1,345
Distribution and service fee (Class B)	5,900
Custodian fee	7,364
Professional fees	35,241
Reports to shareholders	19,346
Trustees' fees and expenses	9,039
Other	8,345
Total expenses before expense reductions	1,684,977
Expense reductions	(102,370)
Total expenses after expense reductions	1,582,607
Net investment income	**$ 3,598,713**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	40,359,549
Foreign currency	23,672
	40,383,221
Change in net unrealized appreciation (depreciation) on:	
Investments	(12,384,413)
Foreign currency	1,924
	(12,382,489)
Net gain (loss)	**28,000,732**
Net increase (decrease) in net assets resulting from operations	**31,599,445**

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, 2014 (Unaudited)	Year Ended December 31, 2013
Operations:		
Net investment income	$ 3,598,713	$ 7,492,381
Net realized gain (loss)	40,383,221	43,142,013
Change in net unrealized appreciation (depreciation)	(12,382,489)	59,914,889
Net increase (decrease) in net assets resulting from operations	31,599,445	110,549,283
Distributions to shareholders from:		
Net investment income:		
Class A	(7,350,279)	(8,048,782)
Class B	(66,263)	(66,664)
Total distributions	(7,416,542)	(8,115,446)
Fund share transactions:		
Class A		
Proceeds from shares sold	5,906,580	7,515,770
Reinvestment of distributions	7,350,279	8,048,782
Payments for shares redeemed	(26,691,245)	(61,510,110)
Net increase (decrease) in net assets from Class A share transactions	(13,434,386)	(45,945,558)
Class B		
Proceeds from shares sold	625,828	822,748
Reinvestment of distributions	66,263	66,664
Payments for shares redeemed	(357,644)	(844,581)
Net increase (decrease) in net assets from Class B share transactions	334,447	44,831
Increase (decrease) in net assets	11,082,964	56,533,110
Net assets at beginning of period	437,062,939	380,529,829
Net assets at end of period (including undistributed net investment income of $3,485,826 and $7,303,655, respectively)	**$ 448,145,903**	**$ 437,062,939**

Other Information		
Class A		
Shares outstanding at beginning of period	27,072,074	30,284,545
Shares sold	367,175	520,949
Shares issued to shareholders in reinvestment of distributions	455,690	590,520
Shares redeemed	(1,652,098)	(4,323,940)
Net increase (decrease) in Class A shares	(829,233)	(3,212,471)
Shares outstanding at end of period	**26,242,841**	**27,072,074**
Class B		
Shares outstanding at beginning of period	289,672	286,965
Shares sold	38,271	55,598
Shares issued to shareholders in reinvestment of distributions	4,095	4,877
Shares redeemed	(21,982)	(57,768)
Net increase (decrease) in Class B shares	20,384	2,707
Shares outstanding at end of period	**310,056**	**289,672**

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

Financial Highlights

Class A	Six Months Ended 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$15.97**	**$12.45**	**$11.56**	**$11.80**	**$10.86**	**$ 8.92**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.13	.26	.25	.25	.23	.21
Net realized and unrealized gain (loss)	1.06	3.54	.87	(.24)	.93	1.97
Total from investment operations	1.19	3.80	1.12	.01	1.16	2.18
Less distributions from:						
Net investment income	(.28)	(.28)	(.23)	(.25)	(.22)	(.24)
Total distributions	(.28)	(.28)	(.23)	(.25)	(.22)	(.24)
Net asset value, end of period	**$16.88**	**$15.97**	**$12.45**	**$11.56**	**$11.80**	**$10.86**
Total Return (%)	7.53[b]**	30.89[b]	9.79[b]	(.07)	10.77	25.37
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	443	432	377	396	206	214
Ratio of expenses before expense reductions (%)	.78*	.78	.78	.79	.82	.76
Ratio of expenses after expense reductions (%)	.73*	.74	.77	.79	.82	.76
Ratio of net investment income (loss) (%)	1.67*	1.82	2.04	2.15	2.13	2.22
Portfolio turnover rate (%)	34**	54	63	28	32	76

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 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$15.99**	**$12.46**	**$11.57**	**$11.81**	**$10.86**	**$ 8.92**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.11	.22	.21	.22	.20	.19
Net realized and unrealized gain (loss)	1.05	3.55	.88	(.25)	.93	1.96
Total from investment operations	1.16	3.77	1.09	(.03)	1.13	2.15
Less distributions from:						
Net investment income	(.23)	(.24)	(.20)	(.21)	(.18)	(.21)
Total distributions	(.23)	(.24)	(.20)	(.21)	(.18)	(.21)
Net asset value, end of period	**$16.92**	**$15.99**	**$12.46**	**$11.57**	**$11.81**	**$10.86**
Total Return (%)	7.31[b]**	30.54[b]	9.44[b]	(.36)	10.53	24.86
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	5	5	4	3	1	1
Ratio of expenses before expense reductions (%)	1.09*	1.09	1.09	1.10	1.11	1.06
Ratio of expenses after expense reductions (%)	1.04*	1.05	1.08	1.10	1.11	1.06
Ratio of net investment income (loss) (%)	1.36*	1.52	1.73	1.84	1.84	1.92
Portfolio turnover rate (%)	34**	54	63	28	32	76

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

Deutsche Large Cap Value VIP (formerly DWS Large Cap Value VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities and ETFs are generally 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 considered 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, 2014, the Fund had securities on loan. The value of the related collateral 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, 2013, the Fund had a net tax basis capital loss carryforward of approximately $96,728,000 of pre-enactment losses, including approximately $88,212,000 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, 2016 ($88,418,000) 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 the Internal Revenue Code.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2013 and has determined that no provision for income tax and/or uncertain tax provisions 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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

B. Purchases and Sales of Securities

During the six months ended June 30, 2014, purchases and sales of investment transactions (excluding short-term investments) aggregated $145,742,150 and $173,459,667, 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%

Accordingly, for the six months ended June 30, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate (exclusive of any applicable waivers/reimbursements) of 0.64% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 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	.73%
Class B	1.04%

For the six months ended June 30, 2014, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 101,196
Class B	1,174
	$ 102,370

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, 2014, the Administration Fee was $215,793, of which $36,743 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it

receives from the Fund. For the six months ended June 30, 2014, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2014
Class A	$ 187	$ 92
Class B	117	63
	$ 304	**$ 155**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plan, DeAWM Distributors, Inc. ("DDI") 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, 2014, the Distribution Service Fee aggregated $5,900, of which $1,059 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $7,578, of which $955 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 Deutsche 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 Deutsche 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 Deutsche 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 Deutsche 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, 2014, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $7,152.

D. Ownership of the Fund

At June 30, 2014, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 60% and 26%. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 62% and 13%.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

F. Fund Name Change

Effective August 11, 2014, the "DWS Funds" were rebranded "Deutsche Funds."

Information About Your Fund's Expenses **(Unaudited)**

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

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, 2014 to June 30, 2014).

— **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, 2014

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,075.30	$1,073.10
Expenses Paid per $1,000*	$ 3.76	$ 5.35
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,021.17	$1,019.64
Expenses Paid per $1,000*	$ 3.66	$ 5.21

* 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**
Deutsche Variable Series II — Deutsche Large Cap Value VIP	.73%	1.04%

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 the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of DWS Large Cap Value VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2013.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2013, all but one of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent Trustees were also advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG, a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

As part of the contract review process, the Board carefully considered the fees and expenses of each DWS fund overseen by the Board in light of the fund's performance. In many cases, this led to a negotiation with DIMA of lower expense caps as part of the 2012 and 2013 contract review processes than had previously been in place. As part of these negotiations, the Board indicated that it would consider relaxing these new lower caps in future years following sustained improvements in performance, among other considerations.

In June 2012, Deutsche Bank AG ("DB"), DIMA's parent company, announced that DB would combine its Asset Management (of which DIMA was a part) and Wealth Management divisions. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that it has, and will continue to, reinvest a significant portion of the substantial savings it expects to realize by combining its Asset Management and Wealth Management divisions into the new Asset and Wealth Management ("AWM") division, including ongoing enhancements to its investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service.

The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2012, the Fund's performance (Class A shares) was in the 4th quartile of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2012. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board recognized that DIMA has made changes to its investment personnel and processes in recent years in an effort to enhance its investment platform and improve long-term performance across the DWS fund complex.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were higher than the median (3rd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2012). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be lower than the median (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2012, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive.

The information considered by the Board as part of its review of management fees included information regarding fees charged by DIMA and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DIMA's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and their independent counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Notes

Notes

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2LCV-3 (R-028386-3 8/14)

Deutsche Asset
& Wealth Management

June 30, 2014

Semiannual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche Money Market VIP

(formerly DWS Money Market 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.

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.

Letter to Shareholders

Dear Shareholder:

I am very pleased to tell you that the DWS funds have been renamed Deutsche funds, aligning more closely with the Deutsche Asset & Wealth Management brand. We are proud to adopt the Deutsche name — a brand that fully represents the global access, discipline and intelligence that support all of our products and services.

Deutsche Asset & Wealth Management combines the asset management and wealth management divisions of Deutsche Bank to deliver a comprehensive suite of active, passive and alternative investment capabilities. Your investment in the Deutsche funds means you have access to the thought leadership and resources of one of the world's largest and most influential financial institutions.

In conjunction with your fund's name change, please note that the Deutsche funds' Web address has changed as well. The former dws-investments.com is now deutschefunds.com.

In addition, key service providers have been renamed as follows:

Former Name	New name, effective August 11, 2014
DWS Investments Distributors, Inc.	DeAWM Distributors, Inc.
DWS Trust Company	DeAWM Trust Company
DWS Investments Service Company	DeAWM Service Company

These changes have no effect on the day-to-day management of your investment, and there is no action required on your part. You will continue to experience the benefits that come from our decades of experience, in-depth research and worldwide network of investment professionals.

Thanks for your continued support. We appreciate your trust and the opportunity to put our capabilities to work for you.

Best regards,

Brian Binder
President, Deutsche Funds

Performance Summary

June 30, 2014 (Unaudited)

Deutsche 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, 2014	0.01%*
December 31, 2013	0.01%*

* The investment advisor has agreed to waive fees/reimburse expenses. Without such fee waivers/expense reimbursements, the 7-day current yield would have been lower.

Yields are historical, will fluctuate and do not guarantee future performance. The 7-day current yield refers to the income paid by the Fund over a 7-day period expressed as an annual percentage rate of the Fund's shares outstanding.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio)	**6/30/14**	**12/31/13**
Commercial Paper	54%	50%
Repurchase Agreements	17%	7%
Short-Term Notes	9%	16%
Certificates of Deposit and Bank Notes	9%	15%
Time Deposit	6%	4%
Government & Agency Obligations	5%	8%
	100%	100%

Weighted Average Maturity*	**6/30/14**	**12/31/13**
Deutsche Variable Series II — Deutsche Money Market VIP	40 days	43 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 6.

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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

	Principal Amount ($)	Value ($)
Certificates of Deposit and Bank Notes 8.8%		
Banco del Estado de Chile, 0.24%, 11/4/2014	1,200,000	1,200,000
Bank of America NA, 0.17%, 7/31/2014	1,500,000	1,500,000
Bank of Montreal, 0.17%, 9/10/2014	1,000,000	1,000,000
China Construction Bank Corp., 0.37%, 7/14/2014	1,500,000	1,500,000
DNB Bank ASA, 0.23%, 10/9/2014	1,000,000	1,000,000
DZ Bank AG:		
0.25%, 9/10/2014	1,000,000	1,000,000
0.26%, 8/25/2014	1,000,000	1,000,000
0.27%, 11/7/2014	750,000	750,000
Fortis Bank SA, 0.22%, 7/1/2014	2,000,000	2,000,000
Industrial & Commercial Bank of China Ltd., 0.37%, 7/29/2014	750,000	750,000
Natixis, 0.223%, 7/14/2014	850,000	850,000
Nordea Bank Finland PLC, 0.21%, 7/7/2014	1,500,000	1,500,000
Wal-Mart Stores, Inc., 5.319%, 6/1/2015	500,000	523,525
Total Certificates of Deposit and Bank Notes (Cost $14,573,525)		**14,573,525**
Commercial Paper 53.8%		
Issued at Discount 41.5%**		
Albion Capital Corp. SA, 0.13%, 7/7/2014	4,000,000	3,999,913
Alpine Securitzation, 144A, 0.02%, 7/1/2014	7,000,000	7,000,000
Apple, Inc., 0.07%, 7/7/2014	500,000	499,994
Bank Nederlandse Gemeenten, 0.255%, 10/20/2014	1,500,000	1,498,821
Bedford Row Funding Corp.:		
144A, 0.3%, 4/14/2015	1,000,000	997,608
144A, 0.31%, 10/27/2014	750,000	749,238
144A, 0.32%, 12/17/2014	1,000,000	998,498
BNZ International Funding Ltd., 144A, 0.155%, 7/23/2014	800,000	799,924
Chevron Corp., 144A, 0.12%, 9/16/2014	750,000	749,807
CNPC Finance HK Ltd.:		
144A, 0.38%, 8/21/2014	500,000	499,731
144A, 0.4%, 7/2/2014	440,000	439,995
Coca-Cola Co., 0.1%, 8/1/2014	722,000	721,938
Collateralized Commercial Paper Co., LLC, 0.21%, 9/25/2014	1,500,000	1,499,247
Collateralized Commercial Paper II Co., LLC, 144A, 0.2%, 8/25/2014	2,000,000	1,999,389
CPPIB Capital, Inc., 0.3%, 2/11/2015	750,000	748,594
DBS Bank Ltd., 144A, 0.235%, 9/10/2014	1,000,000	999,537
Dexia Credit Local:		
0.27%, 9/4/2014	1,000,000	999,512
0.33%, 8/18/2014	1,000,000	999,560
DNB Bank ASA, 0.24%, 10/6/2014	1,750,000	1,748,868
Erste Abwicklungsanstalt:		
144A, 0.12%, 7/7/2014	3,000,000	2,999,940
144A, 0.16%, 9/8/2014	1,500,000	1,499,540
144A, 0.16%, 9/18/2014	1,000,000	999,649
Gotham Funding Corp., 144A, 0.15%, 7/11/2014	3,000,000	2,999,875
Hannover Funding Co., LLC:		
0.18%, 8/4/2014	3,000,000	2,999,490
0.18%, 8/11/2014	500,000	499,897
MetLife Short Term Funding LLC, 144A, 0.2%, 8/6/2014	600,000	599,880
Nordea Bank AB:		
0.165%, 7/28/2014	1,000,000	999,876
0.22%, 11/12/2014	500,000	499,591
Old Line Funding LLC, 144A, 0.22%, 9/10/2014	1,500,000	1,499,349
Oversea-Chinese Banking Corp., Ltd., 0.245%, 9/16/2014	2,000,000	1,998,952
Philip Morris International, Inc.:		
144A, 0.1%, 7/8/2014	2,000,000	1,999,961
144A, 0.12%, 7/21/2014	500,000	499,967
Regency Markets No. 1 LLC, 144A, 0.12%, 7/3/2014	4,500,000	4,499,970
Siemens Capital Co., LLC, 144A, 0.13%, 9/19/2014	1,000,000	999,711
Sinopec Century Bright Capital Investment Ltd., 0.37%, 7/17/2014	1,000,000	999,836
Skandinaviska Enskilda Banken AB, 0.235%, 9/2/2014	1,500,000	1,499,383
Standard Chartered Bank:		
0.28%, 11/3/2014	1,500,000	1,498,542
0.28%, 11/19/2014	1,500,000	1,498,355
Swedbank AB:		
0.175%, 8/19/2014	1,000,000	999,762
0.255%, 10/16/2014	1,300,000	1,299,015
Sydney Capital Corp., 144A, 0.19%, 7/24/2014	3,000,000	2,999,636
United Overseas Bank Ltd., 0.26%, 1/5/2015	1,000,000	998,642
Victory Receivables Corp., 144A, 0.17%, 8/5/2014	1,000,000	999,835
Wal-Mart Stores, Inc., 0.1%, 7/28/2014	1,600,000	1,599,880
Walt Disney Co., 0.1%, 7/31/2014	1,000,000	999,917
		68,938,625
Issued at Par 12.3%		
ANZ New Zealand International Ltd., 144A, 0.213%*, 1/12/2015	1,300,000	1,300,000
ASB Finance Ltd.:		
144A, 0.243%*, 5/22/2015	1,250,000	1,250,000
144A, 0.264%*, 10/9/2014	1,250,000	1,249,976
Atlantic Asset Securitization LLC, 144A, 0.181%*, 8/7/2014	500,000	500,000
Bank of Montreal:		
0.181%*, 8/14/2014	1,000,000	999,994
0.22%*, 9/5/2014	1,000,000	1,000,050
Bank of Nova Scotia, 0.28%*, 1/13/2015	800,000	800,000
BNZ International Funding Ltd.:		
144A, 0.243%*, 2/2/2015	1,000,000	1,000,000
144A, 0.247%*, 1/20/2015	1,250,000	1,250,000
Caisse Centrale Desjardins, 144A, 0.227%*, 1/26/2015	800,000	799,954
Canadian Imperial Bank of Commerce, 0.223%*, 5/8/2015	500,000	500,000

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

	Principal Amount ($)	Value ($)
Kells Funding LLC:		
144A, 0.223%*, 10/28/2014	1,200,000	1,200,000
144A, 0.23%*, 1/27/2015	1,250,000	1,249,963
144A, 0.233%*, 2/13/2015	2,000,000	2,000,111
Nederlandse Waterschapsbank NV, 144A, 0.265%*, 8/15/2014	800,000	800,000
Old Line Funding LLC, 144A, 0.183%*, 10/10/2014	1,200,000	1,200,000
PNC Bank NA, 0.27%, 9/5/2014	1,000,000	1,000,000
Royal Bank of Canada, 0.27%*, 12/11/2014	1,000,000	1,000,000
Westpac Banking Corp., 144A, 0.225%*, 2/19/2015	1,250,000	1,250,004
		20,350,052
Total Commercial Paper (Cost $89,288,677)		**89,288,677**

Short-Term Notes* 9.1%

	Principal Amount ($)	Value ($)
Australia & New Zealand Banking Group Ltd., 144A, 0.327%, 5/18/2015	800,000	800,000
Bank of Nova Scotia:		
0.28%, 9/3/2014	1,000,000	1,000,000
0.294%, 6/24/2015	1,000,000	1,000,000
Canadian Imperial Bank of Commerce, 0.34%, 7/17/2015	1,800,000	1,800,000
Commonwealth Bank of Australia, 144A, 0.241%, 7/10/2015	1,200,000	1,200,000
JPMorgan Chase Bank NA, 0.347%, 6/22/2015	1,000,000	1,000,000
Rabobank Nederland NV:		
0.265%, 7/23/2014	1,000,000	1,000,000
0.277%, 12/1/2014	1,500,000	1,500,000
0.307%, 7/6/2015	1,500,000	1,500,000
Svenska Handelsbanken AB, 144A, 0.308%, 10/3/2014	1,500,000	1,500,000
Wells Fargo Bank NA:		
0.25%, 6/16/2015	1,000,000	1,000,000
0.27%, 12/10/2014	1,000,000	1,000,000
Westpac Banking Corp., 0.231%, 5/11/2015	800,000	800,000
Total Short-Term Notes (Cost $15,100,000)		**15,100,000**

Time Deposits 6.2%

	Principal Amount ($)	Value ($)
Citibank NA, 0.08%, 7/2/2014	4,000,000	4,000,000
Credit Agricole Corporate & Investment Bank, 0.07%, 7/1/2014	6,344,418	6,344,418
Total Time Deposits (Cost $10,344,418)		**10,344,418**

Government & Agency Obligations 5.6%

U.S. Government Sponsored Agencies 4.4%

	Principal Amount ($)	Value ($)
Federal Farm Credit Bank:		
0.113%*, 10/29/2014	500,000	500,025
0.133%*, 10/20/2014	1,000,000	1,000,017
Federal Home Loan Mortgage Corp.:		
0.068%**, 8/7/2014	2,500,000	2,499,820
0.08%**, 11/26/2014	1,200,000	1,199,606
0.094%**, 10/2/2014	500,000	499,877
0.099%**, 10/24/2014	1,500,000	1,499,521
		7,198,866

U.S. Treasury Obligation 1.2%

	Principal Amount ($)	Value ($)
U.S. Treasury Note, 0.5%, 8/15/2014	2,000,000	**2,000,864**
Total Government & Agency Obligations (Cost $9,199,730)		**9,199,730**

Repurchase Agreements 16.5%

	Principal Amount ($)	Value ($)
Barclays Capital, 0.07%, dated 6/30/2014, to be repurchased at $7,000,014 on 7/1/2014 (a)	7,000,000	7,000,000
BNP Paribas, 0.08%, dated 6/30/2014, to be repurchased at $8,000,622 on 8/4/2014 (b)	8,000,000	8,000,000
BNP Paribas, 0.23%***, dated 12/23/2013, to be repurchased at $1,502,147 on 8/4/2014 (c)	1,500,000	1,500,000
JPMorgan Securities, Inc., 0.36%***, dated 3/18/2014, to be repurchased at $2,503,725 on 8/14/2014 (d)	2,500,000	2,500,000
JPMorgan Securities, Inc., 0.39%***, dated 2/13/2014, to be repurchased at $1,253,087 on 9/29/2014 (e)	1,250,000	1,250,000
Nomura Securities International, 0.11%, dated 6/30/2014, to be repurchased at $5,000,015 on 7/1/2014 (f)	5,000,000	5,000,000
The Toronto-Dominion Bank, 0.11%, dated 6/30/2014, to be repurchased at $1,000,003 on 7/1/2014 (g)	1,000,000	1,000,000
Wells Fargo Bank, 0.38%, dated 5/8/2014, to be repurchased at $1,201,140 on 8/6/2014 (h)	1,200,000	1,200,000
Total Repurchase Agreements (Cost $27,450,000)		**27,450,000**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $165,956,350)†	100.0	**165,956,350**
Other Assets and Liabilities, Net	0.0	**67,338**
Net Assets	100.0	**166,023,688**

* 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, 2014.

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

*** Open maturity repurchase agreement whose interest rate resets periodically and is shown at the current rate as of June 30, 2014. The dated date is the original day the repurchase agreement was entered into, the maturity date represents the next repurchase date. Upon notice, both the Fund and counterparty have the right to terminate the repurchase agreement at any time.

† The cost for federal income tax purposes was $165,956,350.

(a) Collateralized by $7,145,600 U.S. Treasury Note, 1.625%, maturing on 6/30/2019 with a value of $7,140,019.

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

(b) Collateralized by:

Principal Amount ($)	Security	Rate (%)	Maturity Date	Collateral Value ($)
1,092,900	Federal Home Loan Mortgage Corp.	4.0–6.0	10/1/2031–8/1/2038	1,224,897
4,306,281	Federal National Mortgage Association	4.0–7.0	4/1/2015–6/1/2041	4,737,894
2,000,334	Government National Mortgage Association	2.5–5.5	5/15/2037–12/15/2042	2,197,209
Total Collateral Value				**8,160,000**

(c) Collateralized by:

Principal Amount ($)	Security	Rate (%)	Maturity Date	Collateral Value ($)
1,372,004	Bank of America Corp.	6.0	9/1/2017	1,578,564
254	Petroleos Mexicanos	6.5	6/2/2041	296
Total Collateral Value				**1,578,860**

(d) Collateralized by $2,560,000 Bank of America Corp., 1.05%, maturing on 3/22/2016 with a value of $2,579,695.

(e) Collateralized by $1,280,000 Bank of America Corp., 1.05%, maturing on 3/22/2016 with a value of $1,289,847.

(f) Collateralized by:

Principal Amount ($)	Security	Rate (%)	Maturity Date	Collateral Value ($)
1,000	Federal National Mortgage Association	4.0	7/1/2044	1,065
4,735,519	Government National Mortgage Association	2.49–6.0	10/15/2033–6/20/2044	5,098,937
Total Collateral Value				**5,100,002**

(g) Collateralized by:

Principal Amount ($)	Security	Rate (%)	Maturity Date	Collateral Value ($)
604,659	Apple, Inc.	2.85	5/6/2021	613,297
702	Bank of Nova Scotia	1.75	3/22/2017	719
1,683	Citigroup, Inc.	3.75	6/16/2024	1,689
416,250	MasterCard, Inc.	3.375	4/1/2024	421,170
679	Westpac Banking Corp.	2.0	5/21/2019	680
Total Collateral Value				**1,037,555**

(h) Collateralized by $901,495 Wells Fargo Bank NA, 6.6%, maturing on 1/15/2038 with a value of $1,241,187.

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The level assigned to the securities valuations may not be an indication of the risk or liquidity 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, 2014 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 (i)	$	$138,506,350	$ —	$138,506,350
Repurchase Agreements	—	27,450,000	—	27,450,000
Total	**$ —**	**$165,956,350**	**$ —**	**$165,956,350**

There have been no transfers between fair value measurement levels during the period ended June 30, 2014.

(i) 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, 2014 (Unaudited)

Assets		
Investments in non-affiliated securities, valued at amortized cost	$	138,506,350
Repurchase agreements, valued at amortized cost		27,450,000
Total investments, valued at amortized cost		165,956,350
Cash		35
Receivable for Fund shares sold		314,058
Interest receivable		26,763
Due from Advisor		8
Other assets		1,329
Total assets		166,298,543
Liabilities		
Payable for Fund shares redeemed		185,182
Distributions payable		636
Accrued Trustees' fees		27
Other accrued expenses and payables		89,010
Total liabilities		274,855
Net assets, at value	**$**	**166,023,688**
Net Assets Consist of		
Undistributed net investment income		712
Accumulated net realized gain (loss)		(81)
Paid-in capital		166,023,057
Net assets, at value	**$**	**166,023,688**
Class A		
Net Asset Value, offering and redemption price per share ($166,023,688 ÷ 166,106,772 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**1.00**

Statement of Operations

for the six months ended June 30, 2014 (Unaudited)

Investment Income		
Income: Interest	$	158,452
Expenses: Management fee		239,350
Administration fee		83,983
Services to shareholders		1,066
Custodian fee		12,961
Professional fees		25,803
Reports to shareholders		40,406
Trustees' fee and expenses		4,344
Other		4,726
Total expenses before expense reductions		412,639
Expense reductions		(262,592)
Total expenses after expense reductions		150,047
Net investment income		**8,405**
Net realized gain (loss)		**(81)**
Net increase (decrease) in net assets resulting from operations	**$**	**8,324**

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, 2014 (Unaudited)	Year Ended December 31, 2013
Operations:		
Net investment income	$ 8,405	$ 18,768
Net realized gain (loss)	(81)	509
Net increase (decrease) in net assets resulting from operations	8,324	19,277
Distributions to shareholders from:		
Net investment income		
Class A	(8,405)	(18,768)
Total distributions	(8,405)	(18,768)
Fund share transactions:		
Class A		
Proceeds from shares sold	29,657,906	93,469,677
Reinvestment of distributions	8,485	18,849
Cost of shares redeemed	(37,322,402)	(115,953,059)
Net increase (decrease) in net assets from Class A share transactions	(7,656,011)	(22,464,533)
Increase (decrease) in net assets	(7,656,092)	(22,464,024)
Net assets at beginning of period	173,679,780	196,143,804
Net assets at end of period (including undistributed net investment income of $712 and $712, respectively)	**$ 166,023,688**	**$ 173,679,780**
Other Information		
Class A		
Shares outstanding at beginning of period	173,762,783	196,227,316
Shares sold	29,657,906	93,469,677
Shares issued to shareholders in reinvestment of distributions	8,485	18,849
Shares redeemed	(37,322,402)	(115,953,059)
Net increase (decrease) in Class A shares	(7,656,011)	(22,464,533)
Shares outstanding at end of period	**166,106,772**	**173,762,783**

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

Financial Highlights

Class A	Six Months Ended 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
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***	.000***	.003
Net realized gain (loss)	(.000)***	.000***	.000***	.000***	.000***	.000***
Total from investment operations	.000***	.000***	.000***	.000***	.000***	.003
Less distributions from:						
Net investment income	(.000)***	(.000)***	(.000)***	(.000)***	(.000)***	(.003)
Net asset value, end of period	**$1.000**	**$1.000**	**$1.000**	**$1.000**	**$1.000**	**$1.000**
Total Return (%)	.00[a,b]**	.01[a]	.01[a]	.01[a]	.01[a]	.34
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	166	174	196	217	220	270
Ratio of expenses before expense reductions (%)	.49*	.49	.45	.51	.46	.43
Ratio of expenses after expense reductions (%)	.18*	.20	.31	.25	.34	.43
Ratio of net investment income (%)	.01*	.01	.01	.01	.01	.37

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

Deutsche Money Market VIP (formerly DWS Money Market VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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, 2014, the Fund held repurchase agreements with a gross value of $27,450,000. 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, 2013 and has determined that no provision for income tax and/or uncertain tax provisions 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, 2014 through September 30, 2014, 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, 2014, the fee pursuant to the Investment Management Agreement aggregated $239,350, all of which was waived, resulting in an annualized effective rate of 0.00% 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, 2014, the Administration Fee was $83,983, of which $22,929 was waived and $9,161 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2014, the amounts charged to the Fund by DSC aggregated $313, 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $6,501, of which $3,461 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, 2014, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 52%, 20% and 12%.

D. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

E. Fund Name Change

Effective August 11, 2014, the "DWS Funds" were rebranded "Deutsche Funds."

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, 2014 to June 30, 2014).

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, 2014

Actual Fund Return	**Class A**
Beginning Account Value 1/1/14	$1,000.00
Ending Account Value 6/30/14	$1,000.05
Expenses Paid per $1,000*	$ .89

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/14	$1,000.00
Ending Account Value 6/30/14	$1,023.90
Expenses Paid per $1,000*	$ .90

* 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**
Deutsche Variable Series II — Deutsche Money Market VIP	.18%

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 the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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 July 2014,the SEC adopted money market fund reform to address potential systemic risks associated with money market funds and to improve transparency for money market fund investors. The fund is required to comply with money market reform over the next two years. As a result, the fund may be required to take certain steps that will impact its structure and/or operations, which could impact the return potential of the fund.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of DWS Money Market VIP's investment management agreement (the “Agreement”) with Deutsche Investment Management Americas Inc. (“DIMA”) in September 2013.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2013, all but one of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Asset Allocation Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the “Fee Consultant”). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent Trustees were also advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG, a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

As part of the contract review process, the Board carefully considered the fees and expenses of each DWS fund overseen by the Board in light of the fund's performance. In many cases, this led to a negotiation with DIMA of lower expense caps as part of the 2012 and 2013 contract review processes than had previously been in place. As part of these negotiations, the Board indicated that it would consider relaxing these new lower caps in future years following sustained improvements in performance, among other considerations.

In June 2012, Deutsche Bank AG (“DB”), DIMA's parent company, announced that DB would combine its Asset Management (of which DIMA was a part) and Wealth Management divisions. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that it has, and will continue to, reinvest a significant portion of the substantial savings it expects to realize by combining its Asset Management and Wealth Management divisions into the new Asset and Wealth Management (“AWM”) division, including ongoing enhancements to its investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including a peer universe compiled by the Fee Consultant using information supplied by iMoneyNet, an independent fund data service. The Board also noted that it has put into place a process of identifying “Focus Funds” (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one- and three-year periods ended December 31, 2012, the Fund's gross performance (Class A shares) was in the 1st quartile and 2nd quartile, respectively, of the applicable iMoneyNet universe (the 1st quartile being the best performers and the 4th quartile being the worst performers).

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. (“Lipper”) and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2012). The Board noted that the Fund's Class A shares total (net) operating expenses were higher than the median (4th quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2012). The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board noted the expense limitation agreed to by DIMA. The Board also noted the significant voluntary fee waivers implemented by DIMA to ensure the Fund maintained a positive yield.

The information considered by the Board as part of its review of management fees included information regarding fees charged by DIMA and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors (“DWS Europe funds”), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds (“DWS Funds”), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DIMA's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and their independent counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2MM-3 (R-028387-3 8/14)

Deutsche Asset
& Wealth Management

June 30, 2014

Semiannual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche Small Mid Cap Growth VIP

(formerly DWS Small Mid Cap Growth 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. 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.

Letter to Shareholders

Dear Shareholder:

I am very pleased to tell you that the DWS funds have been renamed Deutsche funds, aligning more closely with the Deutsche Asset & Wealth Management brand. We are proud to adopt the Deutsche name — a brand that fully represents the global access, discipline and intelligence that support all of our products and services.

Deutsche Asset & Wealth Management combines the asset management and wealth management divisions of Deutsche Bank to deliver a comprehensive suite of active, passive and alternative investment capabilities. Your investment in the Deutsche funds means you have access to the thought leadership and resources of one of the world's largest and most influential financial institutions.

In conjunction with your fund's name change, please note that the Deutsche funds' Web address has changed as well. The former dws-investments.com is now deutschefunds.com.

In addition, key service providers have been renamed as follows:

Former Name	New name, effective August 11, 2014
DWS Investments Distributors, Inc.	DeAWM Distributors, Inc.
DWS Trust Company	DeAWM Trust Company
DWS Investments Service Company	DeAWM Service Company

These changes have no effect on the day-to-day management of your investment, and there is no action required on your part. You will continue to experience the benefits that come from our decades of experience, in-depth research and worldwide network of investment professionals.

Thanks for your continued support. We appreciate your trust and the opportunity to put our capabilities to work for you.

Best regards,

Brian Binder
President, Deutsche Funds

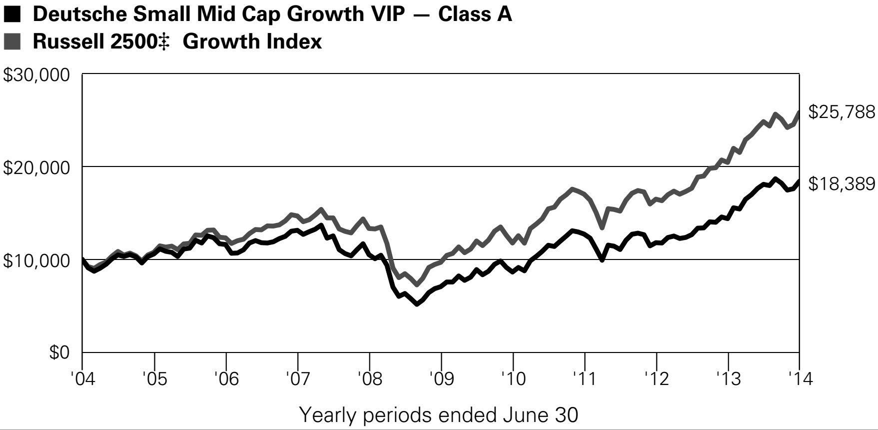
Performance Summary

June 30, 2014 (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, 2014 is 0.72% 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 Deutsche 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

Deutsche Small Mid Cap Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,181	$12,787	$14,460	$26,057	$18,389
	Average annual total return	1.81%	27.87%	13.08%	21.11%	6.28%
Russell 2500 Growth Index	Growth of $10,000	$10,397	$12,626	$15,161	$26,643	$25,788
	Average annual total return	3.97%	26.26%	14.88%	21.65%	9.94%

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)	**6/30/14**	**12/31/13**
Common Stocks	97%	97%
Cash Equivalents	2%	2%
Exchange-Traded Fund	1%	1%
Warrants	0%	—
	100%	100%

Sector Diversification (As a % of Common Stocks, Exchange-Traded Fund and Warrants)	**6/30/14**	**12/31/13**
Consumer Discretionary	21%	20%
Information Technology	20%	23%
Industrials	19%	16%
Health Care	16%	16%
Financials	7%	10%
Energy	6%	5%
Materials	6%	4%
Consumer Staples	3%	5%
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 6.

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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management Team

Joseph Axtell, CFA
Rafaelina M. Lee
Portfolio Managers

Investment Portfolio

June 30, 2014 (Unaudited)

	Shares	Value ($)
Common Stocks 96.6%		
Consumer Discretionary 19.8%		
Auto Components 2.7%		
American Axle & Manufacturing Holdings, Inc.*	91,630	1,730,891
Gentherm, Inc.*	20,569	914,292
Tenneco, Inc.*	32,782	2,153,777
		4,798,960
Hotels, Restaurants & Leisure 2.9%		
Jack in the Box, Inc.	34,893	2,087,997
Life Time Fitness, Inc.* (a)	26,743	1,303,454
Panera Bread Co. "A"*	11,769	1,763,349
		5,154,800
Household Durables 2.3%		
Jarden Corp.*	42,198	2,504,451
Ryland Group, Inc. (a)	40,629	1,602,408
		4,106,859
Leisure Products 1.3%		
Polaris Industries, Inc. (a)	16,804	**2,188,553**
Media 0.8%		
Cinemark Holdings, Inc.	40,900	**1,446,224**
Specialty Retail 7.4%		
Advance Auto Parts, Inc.	12,291	1,658,302
Ascena Retail Group, Inc.*	74,530	1,274,463
DSW, Inc. "A"	42,345	1,183,119
Outerwall, Inc.* (a)	24,026	1,425,943
Penske Automotive Group, Inc.	27,392	1,355,904
PetSmart, Inc. (a)	24,023	1,436,576
The Children's Place, Inc. (a)	33,610	1,668,064
Ulta Salon, Cosmetics & Fragrance, Inc.*	19,007	1,737,430
Urban Outfitters, Inc.*	37,243	1,261,048
		13,000,849
Textiles, Apparel & Luxury Goods 2.4%		
Carter's, Inc.	17,868	1,231,641
Hanesbrands, Inc.	31,125	3,063,945
		4,295,586
Consumer Staples 3.5%		
Food & Staples Retailing 1.0%		
United Natural Foods, Inc.*	28,232	**1,837,903**
Food Products 1.5%		
Hain Celestial Group, Inc.*	19,720	1,749,953
The WhiteWave Foods Co.*	30,260	979,516
		2,729,469
Household Products 1.0%		
Church & Dwight Co., Inc. (a)	23,957	**1,675,792**
Energy 5.7%		
Energy Equipment & Services 2.3%		
Dresser-Rand Group, Inc.*	17,075	1,088,190
Dril-Quip, Inc.*	16,577	1,810,871
RPC, Inc.	52,767	1,239,497
		4,138,558
Oil, Gas & Consumable Fuels 3.4%		
Diamondback Energy, Inc.*	19,917	1,768,630
Goodrich Petroleum Corp.* (a)	60,043	1,657,187
Oasis Petroleum, Inc.*	29,199	1,631,932
Western Refining, Inc.	24,540	921,477
		5,979,226
Financials 7.1%		
Banks 1.2%		
Signature Bank*	16,921	**2,135,092**
Capital Markets 3.1%		
Financial Engines, Inc. (a)	39,619	1,793,948
Lazard Ltd. "A"	37,921	1,955,207
Oaktree Capital Group LLC	34,742	1,736,753
		5,485,908
Consumer Finance 2.0%		
Encore Capital Group, Inc.* (a)	33,531	1,522,978
Portfolio Recovery Associates, Inc.*	33,827	2,013,721
		3,536,699
Thrifts & Mortgage Finance 0.8%		
Ocwen Financial Corp.*	36,283	**1,346,099**
Health Care 14.9%		
Biotechnology 4.4%		
Alkermes PLC*	23,937	1,204,749
Cubist Pharmaceuticals, Inc.*	11,690	816,196
Isis Pharmaceuticals, Inc.* (a)	35,226	1,213,536
Momenta Pharmaceuticals, Inc.*	35,575	429,746
Orexigen Therapeutics, Inc.* (a)	141,597	875,070
Puma Biotechnology, Inc.*	11,422	753,852
Retrophin, Inc.*	70,883	832,166
Spectrum Pharmaceuticals, Inc.* (a)	121,106	984,592
Sunesis Pharmaceuticals, Inc.* (a)	31,537	205,621
Synta Pharmaceuticals Corp.*	123,326	504,403
		7,819,931
Health Care Equipment & Supplies 3.9%		
HeartWare International, Inc.*	17,274	1,528,749
SurModics, Inc.*	67,578	1,447,521
Thoratec Corp.*	56,331	1,963,699
Zeltiq Aesthetics, Inc.* (a)	129,287	1,963,869
		6,903,838
Health Care Providers & Services 4.9%		
Catamaran Corp.*	33,508	1,479,713
Centene Corp.*	33,658	2,544,881
Kindred Healthcare, Inc.	68,707	1,587,132
Molina Healthcare, Inc.* (a)	39,939	1,782,477
Providence Service Corp.*	33,662	1,231,693
		8,625,896
Life Sciences Tools & Services 0.6%		
PAREXEL International Corp.*	21,889	**1,156,615**
Pharmaceuticals 1.1%		
Pacira Pharmaceuticals, Inc.*	11,034	1,013,583
Questcor Pharmaceuticals, Inc. (a)	10,256	948,578
		1,962,161
Industrials 18.6%		
Aerospace & Defense 2.1%		
BE Aerospace, Inc.*	18,848	1,743,251
HEICO Corp.*	36,222	1,881,371
		3,624,622

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

	Shares	Value ($)
Building Products 0.8%		
Fortune Brands Home & Security, Inc.	34,821	**1,390,403**
Commercial Services & Supplies 1.7%		
Interface, Inc. (a)	74,389	1,401,489
Team, Inc.*	40,219	1,649,783
		3,051,272
Construction & Engineering 1.0%		
Primoris Services Corp.	63,365	**1,827,447**
Electrical Equipment 3.0%		
Acuity Brands, Inc.	9,303	1,286,139
AZZ, Inc.	40,373	1,860,388
Thermon Group Holdings, Inc.*	80,490	2,118,497
		5,265,024
Machinery 6.4%		
Altra Industrial Motion Corp.	52,647	1,915,824
Chart Industries, Inc.* (a)	19,919	1,648,098
Manitowoc Co., Inc. (a)	82,944	2,725,540
Middleby Corp.*	15,240	1,260,653
Valmont Industries, Inc. (a)	8,530	1,296,134
WABCO Holdings, Inc.*	23,970	2,560,475
		11,406,724
Professional Services 0.6%		
Huron Consulting Group, Inc.*	65	4,603
TriNet Group, Inc.*	40,684	979,264
		983,867
Road & Rail 1.3%		
Swift Transportation Co.* (a)	94,328	**2,379,896**
Trading Companies & Distributors 1.7%		
NOW, Inc.*	26,570	962,100
United Rentals, Inc.* (a)	18,821	1,971,123
		2,933,223
Information Technology 19.7%		
Communications Equipment 2.0%		
Harris Corp.	30,982	2,346,887
Palo Alto Networks, Inc.*	13,799	1,157,046
		3,503,933
Electronic Equipment, Instruments & Components 2.3%		
Cognex Corp.*	65,096	2,499,686
IPG Photonics Corp.* (a)	24,459	1,682,779
		4,182,465
Internet Software & Services 1.7%		
Cornerstone OnDemand, Inc.*	27,675	1,273,604
CoStar Group, Inc.*	11,084	1,753,156
		3,026,760
IT Services 4.9%		
Cardtronics, Inc.*	64,591	2,201,261
MAXIMUS, Inc.	45,192	1,944,160
VeriFone Systems, Inc.*	69,916	2,569,413
Virtusa Corp.*	53,949	1,931,374
		8,646,208
Semiconductors & Semiconductor Equipment 1.7%		
Advanced Energy Industries, Inc.*	108,432	2,087,316
Ultra Clean Holdings, Inc.*	97,325	880,791
		2,968,107
Software 5.9%		
Aspen Technology, Inc.*	35,546	1,649,334
Imperva, Inc.*	36,830	964,209
PTC, Inc.*	65,897	2,556,804
Splunk, Inc.*	32,011	1,771,169
Tyler Technologies, Inc.*	27,373	2,496,691
Ultimate Software Group, Inc.*	7,250	1,001,733
		10,439,940
Technology Hardware, Storage & Peripherals 1.2%		
Western Digital Corp.	23,146	**2,136,376**
Materials 5.6%		
Chemicals 2.0%		
A. Schulman, Inc.	46,359	1,794,093
Minerals Technologies, Inc.	26,308	1,725,279
		3,519,372
Construction Materials 1.4%		
Eagle Materials, Inc.	26,276	**2,477,301**
Containers & Packaging 0.7%		
Crown Holdings, Inc.*	26,354	**1,311,375**
Metals & Mining 1.5%		
Constellium NV "A"*	49,879	1,599,121
Haynes International, Inc.	19,129	1,082,510
		2,681,631
Telecommunication Services 1.7%		
Diversified Telecommunication Services 0.8%		
inContact, Inc.*	149,568	**1,374,530**
Wireless Telecommunication Services 0.9%		
SBA Communications Corp. "A"*	15,663	**1,602,325**
Total Common Stocks (Cost $124,499,601)		**171,057,819**

	Shares	Value ($)
Exchange-Traded Fund 1.0%		
SPDR S&P Biotech (a) (Cost $1,281,707)	11,388	**1,754,321**

	Shares	Value ($)
Warrants 0.1%		
Health Care		
Sunesis Pharmaceuticals, Inc.:		
Series A, Expiration Date 3/31/2016*	31,537	89,881
Series B, Expiration Date 3/31/2016*	31,537	63,862
Total Warrants (Cost $86,096)		**153,743**

	Shares	Value ($)
Securities Lending Collateral 18.6%		
Daily Assets Fund Institutional, 0.08% (b) (c) (Cost $32,938,265)	32,938,265	**32,938,265**

	Shares	Value ($)
Cash Equivalents 2.3%		
Central Cash Management Fund, 0.06% (b) (Cost $4,045,999)	4,045,999	**4,045,999**

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

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $162,851,668)†	118.6	**209,950,147**
Other Assets and Liabilities, Net	(18.6)	**(32,858,536)**
Net Assets	100.0	**177,091,611**

* Non-income producing security.

† The cost for federal income tax purposes was $163,106,674. At June 30, 2014, net unrealized appreciation for all securities based on tax cost was $46,843,473. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $50,055,202 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,211,729.

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at June 30, 2014 amounted to $31,905,100, which is 18.0% 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.

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2014 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)	$171,057,819	$ —	$ —	$171,057,819
Exchange-Traded Fund	1,754,321	—	—	1,754,321
Warrant	153,743	—	—	153,743
Short-Term Investments (d)	36,984,264	—	—	36,984,264
Total	**$209,950,147**	**$ —**	**$ —**	**$209,950,147**

There have been no transfers between fair value measurement levels during the period ended June 30, 2014.

(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, 2014 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $125,867,404) — including $31,905,100 of securities loaned	$	172,965,883
Investment in Daily Assets Fund Institutional (cost $32,938,265)*		32,938,265
Investment in Central Cash Management Fund (cost $4,045,999)		4,045,999
Total investments in securities, at value (cost $162,851,668)		209,950,147
Cash		367,141
Receivable for investments sold		2,086,629
Receivable for Fund shares sold		3,330
Dividends receivable		34,265
Interest receivable		13,858
Other assets		1,093
Total assets		212,456,463

Liabilities		
Payable upon return of securities loaned		32,938,265
Payable for investments purchased		2,083,874
Payable for Fund shares redeemed		186,369
Accrued management fee		78,586
Accrued Trustees' fees		234
Other accrued expenses and payables		77,524
Total liabilities		35,364,852
Net assets, at value	**$**	**177,091,611**

Net Assets Consist of		
Net investment income (loss)		(99,060)
Net unrealized appreciation (depreciation) on investments		47,098,479
Accumulated net realized gain (loss)		9,187,532
Paid-in capital		120,904,660
Net assets, at value	**$**	**177,091,611**
Class A		
Net Asset Value, offering and redemption price per share ($177,091,611 ÷ 8,057,925 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**21.98**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2014 (Unaudited)

Investment Income		
Income:		
Dividends	$	422,094
Income distributions — Central Cash Management Fund		1,044
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		122,330
Total income		545,468
Expenses:		
Management fee		487,813
Administration fee		88,693
Services to shareholders		1,440
Custodian fee		6,001
Professional fees		35,868
Reports to shareholders		16,297
Trustees' fees and expenses		4,222
Other		4,194
Total expenses		644,528
Net investment income (loss)		**(99,060)**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		17,013,722
Change in net unrealized appreciation (depreciation) on investments		(13,883,645)
Net gain (loss)		**3,130,077**
Net increase (decrease) in net assets resulting from operations	**$**	**3,031,017**

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, 2014 (Unaudited)	Year Ended December 31, 2013
Operations:		
Net investment income (loss)	$ (99,060)	$ (363,396)
Net realized gain (loss)	17,013,722	23,261,132
Change in net unrealized appreciation (depreciation)	(13,883,645)	35,857,105
Net increase (decrease) in net assets resulting from operations	3,031,017	58,754,841
Distributions to shareholders from:		
Net investment income:		
Class A	—	(194,886)
Total distributions	—	(194,886)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,139,745	5,697,979
Reinvestment of distributions	—	194,886
Cost of shares redeemed	(16,356,558)	(22,634,498)
Net increase (decrease) in net assets from Class A share transactions	(13,216,813)	(16,741,633)
Increase (decrease) in net assets	(10,185,796)	41,818,322
Net assets at beginning of period	187,277,407	145,459,085
Net assets at end of period (including net investment loss and undistributed net investment income of $99,060 and $0, respectively)	**$ 177,091,611**	**$ 187,277,407**

Other Information		
Class A		
Shares outstanding at beginning of period	8,676,171	9,604,576
Shares sold	145,187	313,223
Shares issued to shareholders in reinvestment of distributions	—	11,761
Shares redeemed	(763,433)	(1,253,389)
Net increase (decrease) in Class A shares	(618,246)	(928,405)
Shares outstanding at end of period	**8,057,925**	**8,676,171**

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

Financial Highlights

Class A	Six Months Ended 6/30/14 (Unaudited)	Years Ended December 31, 2013	2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$21.59**	**$15.14**	**$13.24**	**$13.85**	**$10.70**	**$ 7.61**
Income (loss) from investment operations:						
Net investment income (loss)[a]	(.01)	(.04)	.02	(.03)	(.01)	(.02)
Net realized and unrealized gain (loss)	.40	6.51	1.88	(.50)	3.16	3.11
Total from investment operations	.39	6.47	1.90	(.53)	3.15	3.09
Less distributions from:						
Net investment income	—	(.02)	—	(.08)	—	—
Net asset value, end of period	**$21.98**	**$21.59**	**$15.14**	**$13.24**	**$13.85**	**$10.70**
Total Return (%)	1.81**	42.78	14.35	(3.91)	29.44	40.60
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	177	187	145	147	88	80
Ratio of expenses (%)	.73*	.72	.74	.73	.78	.77
Ratio of net investment income (loss) (%)	(.11)*	(.22)	.11	(.23)	(.12)	(.22)
Portfolio turnover rate (%)	25**	56	57	84	64	93

a Based on average shares outstanding during the period.

* Annualized

** Not annualized

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

Deutsche Small Mid Cap Growth VIP (formerly DWS Small Mid Cap Growth VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity and ETF securities are generally 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 considered 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, 2014, the Fund had securities on loan. The value of the related collateral 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, 2013, the Fund had a net tax basis capital loss carryforward of approximately $7,570,000 of pre-enactment losses, including approximately $2,020,000 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 ($2,020,000) and December 31, 2017 ($5,550,000), the respective expiration dates, whichever occurs first, and which may be subject to certain limitations under Section 382–384 of Internal Revenue Code.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2013 and has determined that no provision for income tax and/or uncertain tax provisions 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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

B. Purchases and Sales of Securities

During the six months ended June 30, 2014, purchases and sales of investment transactions (excluding short-term investments) aggregated $43,761,766 and $58,252,497, 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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate (exclusive of any applicable waivers/reimbursements) of 0.55% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 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 0.89%.

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, 2014, the Administration Fee was $88,693, of which $14,288 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2014, the amounts charged to the Fund by DSC aggregated $172, of which $85 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $5,916, of which $2,350 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 Deutsche 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 Deutsche 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 Deutsche 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 Deutsche 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, 2014, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $11,536.

D. Ownership of the Fund

At June 30, 2014, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 75% and 22%.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

F. Fund Name Change

Effective August 11, 2014, the "DWS Funds" were rebranded "Deutsche Funds."

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, 2014 to June 30, 2014).

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, 2014

Actual Fund Return	**Class A**
Beginning Account Value 1/1/14	$1,000.00
Ending Account Value 6/30/14	$1,018.10
Expenses Paid per $1,000*	$ 3.65
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/14	$1,000.00
Ending Account Value 6/30/14	$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**
Deutsche Variable Series II — Deutsche Small Mid Cap Growth 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 the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on “proxy voting” at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of DWS Small Mid Cap Growth VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2013.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2013, all but one of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent Trustees were also advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG, a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

As part of the contract review process, the Board carefully considered the fees and expenses of each DWS fund overseen by the Board in light of the fund's performance. In many cases, this led to a negotiation with DIMA of lower expense caps as part of the 2012 and 2013 contract review processes than had previously been in place. As part of these negotiations, the Board indicated that it would consider relaxing these new lower caps in future years following sustained improvements in performance, among other considerations.

In June 2012, Deutsche Bank AG ("DB"), DIMA's parent company, announced that DB would combine its Asset Management (of which DIMA was a part) and Wealth Management divisions. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that it has, and will continue to, reinvest a significant portion of the substantial savings it expects to realize by combining its Asset Management and Wealth Management divisions into the new Asset and Wealth Management ("AWM") division, including ongoing enhancements to its investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the Fee

Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2012, the Fund's performance (Class A shares) was in the 3rd quartile, 2nd quartile and 3rd quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2012.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2012). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be lower than the median (1st quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2012, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable fund and considered differences between the Fund and the comparable fund. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive.

The information considered by the Board as part of its review of management fees included information regarding fees charged by DIMA and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also

considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DIMA's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and their independent counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Notes

Notes

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2SMCG-3 (R-028388-3 8/14)

Deutsche Asset
& Wealth Management

June 30, 2014

Semiannual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche Small Mid Cap Value VIP

(formerly DWS Small Mid Cap Value 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.

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.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

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

Letter to Shareholders

Dear Shareholder:

I am very pleased to tell you that the DWS funds have been renamed Deutsche funds, aligning more closely with the Deutsche Asset & Wealth Management brand. We are proud to adopt the Deutsche name — a brand that fully represents the global access, discipline and intelligence that support all of our products and services.

Deutsche Asset & Wealth Management combines the asset management and wealth management divisions of Deutsche Bank to deliver a comprehensive suite of active, passive and alternative investment capabilities. Your investment in the Deutsche funds means you have access to the thought leadership and resources of one of the world's largest and most influential financial institutions.

In conjunction with your fund's name change, please note that the Deutsche funds' Web address has changed as well. The former dws-investments.com is now deutschefunds.com.

In addition, key service providers have been renamed as follows:

Former Name	New name, effective August 11, 2014
DWS Investments Distributors, Inc.	DeAWM Distributors, Inc.
DWS Trust Company	DeAWM Trust Company
DWS Investments Service Company	DeAWM Service Company

These changes have no effect on the day-to-day management of your investment, and there is no action required on your part. You will continue to experience the benefits that come from our decades of experience, in-depth research and worldwide network of investment professionals.

Thanks for your continued support. We appreciate your trust and the opportunity to put our capabilities to work for you.

Best regards,

Brian Binder
President, Deutsche Funds

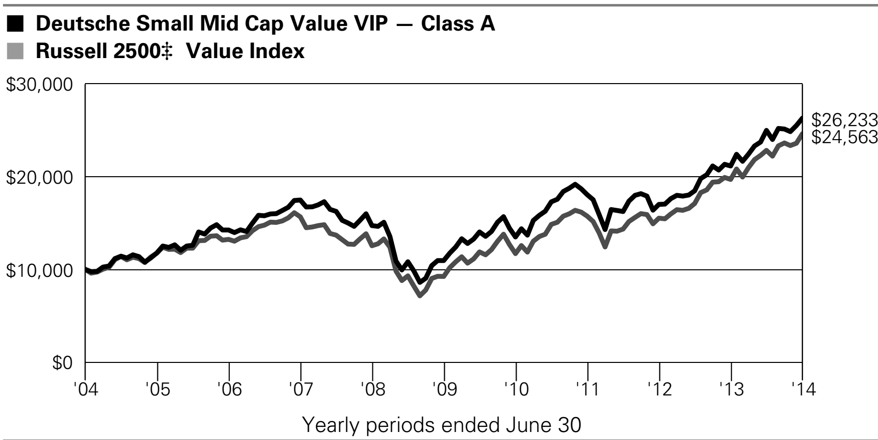
Performance Summary

June 30, 2014 (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, 2014 are 0.82% and 1.17% 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 Deutsche 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

Deutsche Small Mid Cap Value VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,523	$12,430	$14,551	$23,965	$26,233
	Average annual total return	5.23%	24.30%	13.32%	19.10%	10.12%
Russell 2500 Value Index	Growth of $10,000	$10,787	$12,494	$15,616	$26,570	$24,563
	Average annual total return	7.87%	24.94%	16.02%	21.58%	9.40%

Deutsche Small Mid Cap Value VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,497	$12,375	$14,386	$23,535	$25,301
	Average annual total return	4.97%	23.75%	12.89%	18.67%	9.73%
Russell 2500 Value Index	Growth of $10,000	$10,787	$12,494	$15,616	$26,570	$24,563
	Average annual total return	7.87%	24.94%	16.02%	21.58%	9.40%

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)	**6/30/14**	**12/31/13**
Common Stocks	96%	96%
Cash Equivalents	4%	4%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/14**	**12/31/13**
Industrials	23%	29%
Information Technology	21%	14%
Financials	15%	16%
Consumer Discretionary	13%	12%
Materials	9%	7%
Energy	8%	5%
Health Care	7%	10%
Consumer Staples	2%	2%
Utilities	2%	5%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Manager

Richard Glass, CFA

Portfolio Manager

	Shares	Value ($)
Common Stocks 95.2%		
Consumer Discretionary 12.1%		
Auto Components 2.0%		
Visteon Corp.*	50,570	**4,905,796**
Diversified Consumer Services 1.4%		
Ascent Capital Group, Inc. "A"*	51,303	**3,386,511**
Hotels, Restaurants & Leisure 1.5%		
The Wendy's Co.	421,696	**3,597,067**
Household Durables 3.1%		
Newell Rubbermaid, Inc.	245,170	**7,597,818**
Media 1.5%		
Scripps Networks Interactive, Inc. "A"	44,420	**3,604,239**
Specialty Retail 1.4%		
Ross Stores, Inc.	52,295	**3,458,268**
Textiles, Apparel & Luxury Goods 1.2%		
Hanesbrands, Inc.	28,238	**2,779,749**
Consumer Staples 2.3%		
Food Products		
Ingredion, Inc.	73,603	**5,523,169**
Energy 7.1%		
Energy Equipment & Services 3.4%		
Superior Energy Services, Inc.	124,276	4,491,335
TETRA Technologies, Inc.*	316,162	3,724,388
		8,215,723
Oil, Gas & Consumable Fuels 3.7%		
Cimarex Energy Co.	29,351	4,210,694
QEP Resources, Inc.	140,350	4,842,075
		9,052,769
Financials 14.3%		
Banks 3.6%		
Capital Bank Financial Corp. "A"*	150,950	3,563,929
Investors Bancorp., Inc.	470,281	5,196,605
		8,760,534
Capital Markets 2.4%		
Lazard Ltd. "A"	114,296	**5,893,102**
Insurance 6.7%		
Axis Capital Holdings Ltd.	52,977	2,345,822
CNO Financial Group, Inc.	368,608	6,561,222
PartnerRe Ltd.	33,313	3,638,113
Reinsurance Group of America, Inc.	46,427	3,663,090
		16,208,247
Real Estate Investment Trusts 1.6%		
Plum Creek Timber Co., Inc. (REIT)	86,738	**3,911,884**
Health Care 6.9%		
Health Care Equipment & Supplies 1.9%		
CareFusion Corp.*	104,820	**4,648,767**
Health Care Providers & Services 3.7%		
HealthSouth Corp.	148,405	5,323,287
Omnicare, Inc.	55,065	3,665,677
		8,988,964

	Shares	Value ($)
Life Sciences Tools & Services 1.3%		
PerkinElmer, Inc.	65,050	**3,046,942**
Industrials 21.8%		
Aerospace & Defense 1.4%		
Curtiss-Wright Corp.	53,300	**3,494,348**
Air Freight & Logistics 0.2%		
Forward Air Corp.	7,431	**355,573**
Building Products 2.1%		
Owens Corning, Inc.	130,702	**5,055,553**
Commercial Services & Supplies 3.4%		
Covanta Holding Corp.	186,540	3,844,589
The Brink's Co.	158,544	4,474,112
		8,318,701
Electrical Equipment 2.1%		
The Babcock & Wilcox Co.	158,183	**5,134,620**
Machinery 8.6%		
Harsco Corp.	220,691	5,877,001
ITT Corp.	85,280	4,101,968
Snap-on, Inc.	25,653	3,040,394
Stanley Black & Decker, Inc.	39,090	3,432,884
Xylem, Inc.	111,667	4,363,946
		20,816,193
Marine 2.0%		
Kirby Corp.*	42,382	**4,964,628**
Trading Companies & Distributors 2.0%		
AerCap Holdings NV*	104,598	**4,790,589**
Information Technology 20.3%		
Communications Equipment 3.0%		
Harris Corp.	49,741	3,767,881
Juniper Networks, Inc.*	144,586	3,548,140
		7,316,021
Electronic Equipment, Instruments & Components 6.0%		
Belden, Inc.	69,500	5,432,120
Dolby Laboratories, Inc. "A"*	106,600	4,605,120
Zebra Technologies Corp. "A"*	54,513	4,487,510
		14,524,750
IT Services 7.8%		
Amdocs Ltd.	96,752	4,482,520
Convergys Corp.	271,794	5,827,263
Global Payments, Inc.	65,730	4,788,431
NeuStar, Inc. "A"*	150,621	3,919,159
		19,017,373
Software 3.5%		
ACI Worldwide, Inc.*	53,993	3,014,429
Verint Systems, Inc.*	109,912	5,391,184
		8,405,613
Materials 8.9%		
Chemicals 5.2%		
Ashland, Inc.	44,523	4,841,431
Celanese Corp. "A"	60,868	3,912,595
Cytec Industries, Inc.	37,243	3,926,157
		12,680,183

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

	Shares	Value ($)
Containers & Packaging 2.6%		
Sealed Air Corp.	184,770	**6,313,591**
Metals & Mining 1.1%		
Materion Corp.	75,204	**2,781,796**
Utilities 1.5%		
Electric Utilities 0.5%		
Northeast Utilities	26,316	**1,243,957**
Gas Utilities 0.5%		
UGI Corp.	24,877	**1,256,289**
Multi-Utilities 0.5%		
CMS Energy Corp.	40,953	**1,275,687**
Total Common Stocks (Cost $192,884,395)		**231,325,014**

	Shares	Value ($)
Cash Equivalents 3.7%		
Central Cash Management Fund, 0.06% (a) (Cost $9,066,705)	9,066,705	**9,066,705**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $201,951,100)†	98.9	**240,391,719**
Other Assets and Liabilities, Net	1.1	**2,619,910**
Net Assets	100.0	**243,011,629**

* Non-income producing security.

† The cost for federal income tax purposes was $201,951,100. At June 30, 2014, net unrealized appreciation for all securities based on tax cost was $38,440,619. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $42,936,064 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $4,495,445.

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

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2014 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 (b)	$231,325,014	$ —	$ —	$231,325,014
Short-Term Investments	9,066,705	—	—	9,066,705
Total	**$240,391,719**	**$ —**	**$ —**	**$240,391,719**

There have been no transfers between fair value measurement levels during the period ended June 30, 2014.

(b) 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, 2014 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $192,884,395)	$	231,325,014
Investment in Central Cash Management Fund (cost $9,066,705)		9,066,705
Total investments in securities, at value (cost $201,951,100)		240,391,719
Receivable for investments sold		4,274,757
Receivable for Fund shares sold		55,545
Dividends receivable		167,628
Interest receivable		444
Other assets		1,625
Total assets		244,891,718
Liabilities		
Payable for investments purchased		829,342
Payable for Fund shares redeemed		816,250
Accrued management fee		129,511
Accrued Trustees' fees		686
Other accrued expenses and payables		104,300
Total liabilities		1,880,089
Net assets, at value	**$**	**243,011,629**
Net Assets Consist of		
Undistributed net investment income		431,249
Net unrealized appreciation (depreciation) on investments		38,440,619
Accumulated net realized gain (loss)		8,915,203
Paid-in capital		195,224,558
Net assets, at value	**$**	**243,011,629**
Class A		
Net Asset Value, offering and redemption price per share ($224,966,496 ÷ 12,683,655 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**17.74**
Class B		
Net Asset Value, offering and redemption price per share ($18,045,133 ÷ 1,016,345 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**17.75**

Statement of Operations

for the six months ended June 30, 2014 (Unaudited)

Investment Income		
Income:		
Dividends	$	1,467,450
Income distributions — Central Cash Management Fund		2,481
Total income		1,469,931
Expenses:		
Management fee		786,497
Administration fee		121,021
Services to shareholders		3,823
Record keeping fees (Class B)		9,359
Distribution service fee (Class B)		23,167
Custodian fee		6,157
Professional fees		33,696
Reports to shareholders		27,157
Trustees' fees and expenses		5,595
Other		4,753
Total expenses		1,021,225
Net investment income (loss)		**448,706**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		9,038,541
Change in net unrealized appreciation (depreciation) on investments		2,349,037
Net gain (loss)		**11,387,578**
Net increase (decrease) in net assets resulting from operations	**$**	**11,836,284**

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, 2014 (Unaudited)	Year Ended December 31, 2013
Operations:		
Net investment income (loss)	$ 448,706	$ 1,914,959
Net realized gain (loss)	9,038,541	72,681,616
Change in net unrealized appreciation (depreciation)	2,349,037	(601,679)
Net increase (decrease) in net assets resulting from operations	11,836,284	73,994,896
Distributions to shareholders from:		
Net investment income:		
Class A	(1,782,045)	(2,660,096)
Class B	(85,579)	(150,280)
Net realized gains:		
Class A	(1,065,847)	—
Class B	(91,018)	—
Total distributions	(3,024,489)	(2,810,376)
Fund share transactions:		
Class A		
Proceeds from shares sold	4,703,220	17,897,526
Reinvestment of distributions	2,847,892	2,660,096
Payments for shares redeemed	(30,612,559)	(65,359,482)
Net increase (decrease) in net assets from Class A share transactions	(23,061,447)	(44,801,860)
Class B		
Proceeds from shares sold	1,754,326	4,288,905
Reinvestment of distributions	176,597	150,280
Payments for shares redeemed	(4,367,974)	(6,805,298)
Net increase (decrease) in net assets from Class B share transactions	(2,437,051)	(2,366,113)
Increase (decrease) in net assets	(16,686,703)	24,016,547
Net assets at beginning of period	259,698,332	235,681,785
Net assets at end of period (including undistributed net investment income of $431,249 and $1,850,167, respectively)	**$ 243,011,629**	**$ 259,698,332**

Other Information		
Class A		
Shares outstanding at beginning of period	14,042,897	17,113,875
Shares sold	276,727	1,211,679
Shares issued to shareholders in reinvestment of distributions	170,839	190,143
Shares redeemed	(1,806,808)	(4,472,800)
Net increase (decrease) in Class A shares	(1,359,242)	(3,070,978)
Shares outstanding at end of period	**12,683,655**	**14,042,897**
Class B		
Shares outstanding at beginning of period	1,160,889	1,321,925
Shares sold	103,397	288,710
Shares issued to shareholders in reinvestment of distributions	10,581	10,719
Shares redeemed	(258,522)	(460,465)
Net increase (decrease) in Class B shares	(144,544)	(161,036)
Shares outstanding at end of period	**1,016,345**	**1,160,889**

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

Financial Highlights

Class A	Six Months Ended 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$17.08**	**$12.78**	**$11.36**	**$12.21**	**$10.04**	**$ 7.93**
Income (loss) from investment operations:						
Net investment income[a]	.03	.12	.14	.13	.12	.16
Net realized and unrealized gain (loss)	.85	4.35	1.42	(.85)	2.19	2.11
Total from investment operations	.88	4.47	1.56	(.72)	2.31	2.27
Less distributions from:						
Net investment income	(.14)	(.17)	(.14)	(.13)	(.14)	(.16)
Net realized gains on investment transactions	(.08)	—	—	—	—	—
Total distributions	(.22)	(.17)	(.14)	(.13)	(.14)	(.16)
Net asset value, end of period	**$17.74**	**$17.08**	**$12.78**	**$11.36**	**$12.21**	**$10.04**
Total Return (%)	5.23**	35.24	13.77	(6.08)	23.07	29.70
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	225	240	219	216	247	235
Ratio of expenses (%)	.82*	.82	.82	.81	.82	.79
Ratio of net investment income (%)	.40*	.81	1.18	1.08	1.14	1.92
Portfolio turnover rate (%)	20**	115	11	36	38	72

a Based on average shares outstanding during the period.
* Annualized
** Not annualized

Class B	Six Months Ended 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$17.07**	**$12.78**	**$11.36**	**$12.20**	**$10.03**	**$ 7.92**
Income (loss) from investment operations:						
Net investment income[a]	.00***	.07	.10	.09	.08	.13
Net realized and unrealized gain (loss)	.84	4.34	1.42	(.85)	2.19	2.12
Total from investment operations	.84	4.41	1.52	(.76)	2.27	2.25
Less distributions from:						
Net investment income	(.08)	(.12)	(.10)	(.08)	(.10)	(.14)
Net realized gains on investment transactions	(.08)	—	—	—	—	—
Total distributions	(.16)	(.12)	(.10)	(.08)	(.10)	(.14)
Net asset value, end of period	**$17.75**	**$17.07**	**$12.78**	**$11.36**	**$12.20**	**$10.03**
Total Return (%)	4.97**	34.70	13.38	(6.33)	22.66	29.28
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	18	20	17	20	26	23
Ratio of expenses (%)	1.17*	1.17	1.16	1.15	1.17	1.14
Ratio of net investment income (%)	.04*	.45	.81	.74	.79	1.57
Portfolio turnover rate (%)	20**	115	11	36	38	72

a Based on average shares outstanding during the period.
* Annualized
** Not annualized
*** Amount is less than $.005.

Notes to Financial Statements

(Unaudited)

A. Organization and Significant Accounting Policies

Deutsche Small Mid Cap Value VIP (formerly DWS Small Mid Cap Value VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities are generally 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 considered 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. For the six months ended June 30, 2014, the Fund had no securities on loan.

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, 2013 and has determined that no provision for income tax and/or uncertain tax provisions 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 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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

B. Purchases and Sales of Securities

During the six months ended June 30, 2014, purchases and sales of investment transactions (excluding short-term investments) aggregated $46,992,074 and $75,808,036, 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	.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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate (exclusive of any applicable waivers/reimbursements) of 0.65% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 30, 2014, 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	.83%
Class B	1.19%

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, 2014, the Administration Fee was $121,021, of which $19,925 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2014, the amounts charged to the Fund by DSC were as follows:

Service to Shareholders	Total Aggregated	Unpaid at June 30, 2014
Class A	$ 298	$ 147
Class B	296	145
	$ 594	**$ 292**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plan, DeAWM Distributors, Inc. ("DDI") 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, 2014, the Distribution Service Fee aggregated $23,167, of which $3,662 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $7,485, of which $690 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 Deutsche 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 Deutsche 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 Deutsche 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 Deutsche Variable NAV Money Fund.

D. Ownership of the Fund

At June 30, 2014, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 58% and 21%. Three participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 41%, 24% and 17%.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

F. Fund Name Change

Effective August 11, 2014, the "DWS Funds" were rebranded "Deutsche Funds."

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, 2014 to June 30, 2014).

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, 2014

Actual Fund Return	Class A	Class B
Beginning Account Value 1/1/14	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,052.30	$1,049.70
Expenses Paid per $1,000*	$ 4.17	$ 5.95
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/14	$1,000.00	$1,000.00
Ending Account Value 6/30/14	$1,020.73	$1,018.99
Expenses Paid per $1,000*	$ 4.11	$ 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
Deutsche Variable Series II — Deutsche Small Mid Cap Value VIP	.82%	1.17%

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

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

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of DWS Small Mid Cap Value VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2013.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2013, all but one of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent Trustees were also advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG, a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

As part of the contract review process, the Board carefully considered the fees and expenses of each DWS fund overseen by the Board in light of the fund's performance. In many cases, this led to a negotiation with DIMA of lower expense caps as part of the 2012 and 2013 contract review processes than had previously been in place. As part of these negotiations, the Board indicated that it would consider relaxing these new lower caps in future years following sustained improvements in performance, among other considerations.

In June 2012, Deutsche Bank AG ("DB"), DIMA's parent company, announced that DB would combine its Asset Management (of which DIMA was a part) and Wealth Management divisions. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that it has, and will continue to, reinvest a significant portion of the substantial savings it expects to realize by combining its Asset Management and Wealth Management divisions into the new Asset and Wealth Management ("AWM") division, including ongoing enhancements to its investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the Fee

Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2012, the Fund's performance (Class A shares) was in the 4th quartile, 4th quartile and 3rd quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2012. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board recognized that DIMA has made changes to its investment personnel and processes in recent years in an effort to enhance its investment platform and improve long-term performance across the DWS fund complex.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2012). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be lower than the median (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2012, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable fund and considered differences between the Fund and the comparable fund. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive.

The information considered by the Board as part of its review of management fees included information regarding fees charged by DIMA and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule

represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DIMA's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and their independent counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2SMCV-3 (R-028381-3 8/14)

Deutsche Asset
& Wealth Management

June 30, 2014

Semiannual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche Unconstrained Income VIP

(formerly DWS Unconstrained Income VIP)

Contents

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

Bond investments are subject to interest-rate and credit risks. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. 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.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

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

Letter to Shareholders

Dear Shareholder:

I am very pleased to tell you that the DWS funds have been renamed Deutsche funds, aligning more closely with the Deutsche Asset & Wealth Management brand. We are proud to adopt the Deutsche name — a brand that fully represents the global access, discipline and intelligence that support all of our products and services.

Deutsche Asset & Wealth Management combines the asset management and wealth management divisions of Deutsche Bank to deliver a comprehensive suite of active, passive and alternative investment capabilities. Your investment in the Deutsche funds means you have access to the thought leadership and resources of one of the world's largest and most influential financial institutions.

In conjunction with your fund's name change, please note that the Deutsche funds' Web address has changed as well. The former dws-investments.com is now deutschefunds.com.

In addition, key service providers have been renamed as follows:

Former Name	New name, effective August 11, 2014
DWS Investments Distributors, Inc.	DeAWM Distributors, Inc.
DWS Trust Company	DeAWM Trust Company
DWS Investments Service Company	DeAWM Service Company

These changes have no effect on the day-to-day management of your investment, and there is no action required on your part. You will continue to experience the benefits that come from our decades of experience, in-depth research and worldwide network of investment professionals.

Thanks for your continued support. We appreciate your trust and the opportunity to put our capabilities to work for you.

Best regards,

Brian Binder
President, Deutsche Funds

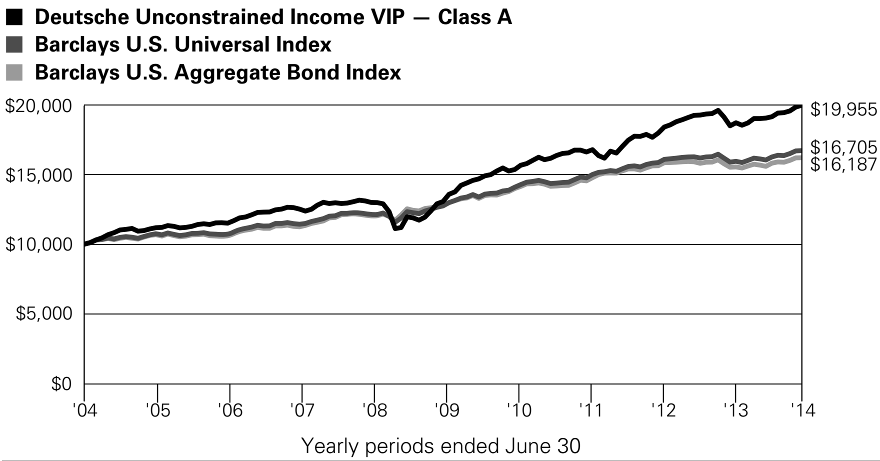
Performance Summary

June 30, 2014 (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, 2014 is 1.02% 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 Deutsche 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.

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

Deutsche Unconstrained Income VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,487	$10,796	$12,018	$15,285	$19,955
	Average annual total return	4.87%	7.96%	6.32%	8.86%	7.15%
Barclays U.S. Universal Index	Growth of $10,000	$10,419	$10,520	$11,321	$13,120	$16,705
	Average annual total return	4.19%	5.20%	4.22%	5.58%	5.27%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$10,393	$10,437	$11,140	$12,674	$16,187
	Average annual total return	3.93%	4.37%	3.66%	4.85%	4.93%

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)	**6/30/14**	**12/31/13**
Corporate Bonds	56%	60%
Government & Agency Obligations	14%	19%
Cash Equivalents	10%	2%
Loan Participations and Assignments	5%	5%
Exchange-Traded Fund	5%	1%
Commercial Mortgage-Backed Securities	3%	3%
Collateralized Mortgage Obligations	3%	5%
Asset-Backed	2%	1%
Municipal Bonds and Notes	2%	2%
Mortgage-Backed Securities Pass-Throughs	—	2%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	**6/30/14**	**12/31/13**
AAA	8%	20%
AA	5%	3%
A	4%	3%
BBB	17%	18%
BB	31%	25%
B	20%	19%
CCC or Below	6%	4%
Not Rated	9%	8%
	100%	100%

Interest Rate Sensitivity	**6/30/14**	**12/31/13**
Effective Maturity	6.3 years	6.6 years
Effective Duration	3.9 years	4.3 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 6.

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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Portfolio Management Team

Gary Russell, CFA
William Chepolis, CFA
John D. Ryan
Philip G. Condon
Darwei Kung
Portfolio Managers

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 56.1%		
Consumer Discretionary 6.8%		
Ally Financial, Inc., 8.3%, 2/12/2015	135,000	140,653
AMC Entertainment, Inc., 5.875%, 2/15/2022 (b)	30,000	31,200
AMC Networks, Inc., 7.75%, 7/15/2021	15,000	16,781
AmeriGas Finance LLC:		
6.75%, 5/20/2020	70,000	75,950
7.0%, 5/20/2022	60,000	66,450
APX Group, Inc.:		
8.75%, 12/1/2020	5,000	5,075
144A, 8.75%, 12/1/2020	20,000	20,300
Asbury Automotive Group, Inc., 8.375%, 11/15/2020	85,000	94,350
Ashtead Capital, Inc., 144A, 6.5%, 7/15/2022	45,000	49,162
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	50,000	50,000
Avis Budget Car Rental LLC, 5.5%, 4/1/2023	30,000	30,675
BC Mountain LLC, 144A, 7.0%, 2/1/2021	30,000	29,025
Block Communications, Inc., 144A, 7.25%, 2/1/2020	65,000	69,225
Boyd Gaming Corp., 9.0%, 7/1/2020 (b)	25,000	27,562
Cablevision Systems Corp.:		
5.875%, 9/15/2022	15,000	15,281
8.0%, 4/15/2020 (b)	10,000	11,356
CCO Holdings LLC:		
6.5%, 4/30/2021	120,000	127,800
6.625%, 1/31/2022	70,000	75,250
7.0%, 1/15/2019 (b)	20,000	21,100
7.25%, 10/30/2017	90,000	94,950
7.375%, 6/1/2020	10,000	10,900
8.125%, 4/30/2020	25,000	27,063
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	89,000	88,666
144A, 6.375%, 9/15/2020	160,000	170,000
Clear Channel Communications, Inc.:		
9.0%, 12/15/2019	70,000	74,637
11.25%, 3/1/2021	40,000	45,350
Clear Channel Worldwide Holdings, Inc.:		
Series A, 6.5%, 11/15/2022	15,000	16,013
Series A, 7.625%, 3/15/2020	20,000	21,400
Series B, 7.625%, 3/15/2020	185,000	199,569
Cogeco Cable, Inc., 144A, 4.875%, 5/1/2020	5,000	5,063
Columbus International, Inc., 144A, 7.375%, 3/30/2021	200,000	215,500
Crown Media Holdings, Inc., 10.5%, 7/15/2019	55,000	61,944
CSC Holdings LLC, 144A, 5.25%, 6/1/2024	75,000	73,781
Cumulus Media Holdings, Inc., 7.75%, 5/1/2019 (b)	65,000	68,494
Delphi Corp., 5.0%, 2/15/2023	40,000	43,000
DISH DBS Corp.:		
4.25%, 4/1/2018	40,000	41,600
5.0%, 3/15/2023	50,000	50,937
6.625%, 10/1/2014	65,000	65,812
6.75%, 6/1/2021	10,000	11,400
7.125%, 2/1/2016	155,000	167,594
General Motors Financial Co., Inc., 3.25%, 5/15/2018	15,000	15,225
Getty Images, Inc., 144A, 7.0%, 10/15/2020	50,000	45,812
Group 1 Automotive, Inc., 144A, 5.0%, 6/1/2022	25,000	25,000
Harron Communications LP, 144A, 9.125%, 4/1/2020	60,000	66,900
Hertz Corp., 6.75%, 4/15/2019	50,000	53,000
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	20,000	22,200
Isle of Capri Casinos, Inc., 5.875%, 3/15/2021	15,000	15,169
Jo-Ann Stores Holdings, Inc., 144A, 9.75%, 10/15/2019 (PIK)	25,000	25,563
Johnson Controls, Inc., 4.95%, 7/2/2064	40,000	40,521
L Brands, Inc., 7.0%, 5/1/2020	20,000	22,975
Live Nation Entertainment, Inc.:		
144A, 5.375%, 6/15/2022	5,000	5,063
144A, 7.0%, 9/1/2020	50,000	54,750
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	30,000	31,650
Mediacom Broadband LLC:		
144A, 5.5%, 4/15/2021	5,000	5,063
6.375%, 4/1/2023	65,000	68,575
Mediacom LLC, 7.25%, 2/15/2022	20,000	21,800
MGM Resorts International:		
6.75%, 10/1/2020	76,000	84,835
8.625%, 2/1/2019	85,000	101,256
Numericable Group SA, 144A, 4.875%, 5/15/2019	70,000	71,837
Pinnacle Entertainment, Inc., 6.375%, 8/1/2021	35,000	36,925
Quebecor Media, Inc., 5.75%, 1/15/2023	30,000	30,825
RCI Banque SA, 144A, 3.5%, 4/3/2018	200,000	208,506
Sabre Holdings Corp., 8.35%, 3/15/2016	55,000	60,844
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021	15,000	15,038
Seminole Tribe of Florida, Inc., 144A, 7.804%, 10/1/2020	70,000	78,750
Serta Simmons Holdings LLC, 144A, 8.125%, 10/1/2020	35,000	37,975
Sirius XM Radio, Inc., 144A, 5.875%, 10/1/2020	30,000	31,725
Springs Industries, Inc., 6.25%, 6/1/2021	35,000	35,700
Starz LLC, 5.0%, 9/15/2019	25,000	26,031
Taylor Morrison Communities, Inc., 144A, 5.25%, 4/15/2021	40,000	40,600
The Men's Wearhouse, Inc., 144A, 7.0%, 7/1/2022 (b)	20,000	20,700
Time Warner Cable, Inc., 7.3%, 7/1/2038	35,000	47,083
Travelport LLC, 144A, 13.875%, 3/1/2016 (PIK)	6,912	7,119
UCI International, Inc., 8.625%, 2/15/2019	20,000	19,000
Univision Communications, Inc., 144A, 7.875%, 11/1/2020	25,000	27,500

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

	Principal Amount ($)(a)	Value ($)
Viking Cruises Ltd., 144A, 8.5%, 10/15/2022	30,000	33,150
Weyerhaeuser Real Estate Co.:		
144A, 4.375%, 6/15/2019	20,000	20,050
144A, 5.875%, 6/15/2024	10,000	10,288
		4,075,871
Consumer Staples 3.2%		
Ajecorp BV, 144A, 6.5%, 5/14/2022 (b)	150,000	138,000
Big Heart Pet Brands, 7.625%, 2/15/2019	55,000	57,315
BRF SA, 144A, 5.875%, 6/6/2022	200,000	216,500
Chiquita Brands International, Inc., 7.875%, 2/1/2021	24,000	26,130
Controladora Mabe SA de CV, 144A, 7.875%, 10/28/2019	100,000	114,500
Cott Beverages, Inc., 144A, 5.375%, 7/1/2022	35,000	35,088
Delhaize Group SA, 4.125%, 4/10/2019	140,000	147,015
FAGE Dairy Industry SA, 144A, 9.875%, 2/1/2020	85,000	90,950
JBS Investments GmbH:		
144A, 7.25%, 4/3/2024	70,000	72,450
144A, 7.75%, 10/28/2020	200,000	214,000
JBS U.S.A. LLC:		
144A, 7.25%, 6/1/2021	80,000	85,800
144A, 8.25%, 2/1/2020	25,000	27,125
Marfrig Overseas Ltd., 144A, 9.5%, 5/4/2020	100,000	107,500
Pilgrim's Pride Corp., 7.875%, 12/15/2018	45,000	47,646
Post Holdings, Inc.:		
144A, 6.0%, 12/15/2022	30,000	30,600
144A, 6.75%, 12/1/2021	60,000	63,750
Reynolds Group Issuer, Inc.:		
5.75%, 10/15/2020	235,000	247,925
6.875%, 2/15/2021	100,000	107,912
Roundy's Supermarkets, Inc., 144A, 10.25%, 12/15/2020	30,000	31,688
Smithfield Foods, Inc., 6.625%, 8/15/2022	30,000	32,850
		1,894,744
Energy 9.3%		
Access Midstream Partners LP, 6.125%, 7/15/2022	55,000	60,775
Afren PLC, 144A, 10.25%, 4/8/2019	140,000	158,725
Antero Resources Finance Corp., 5.375%, 11/1/2021	15,000	15,563
Baytex Energy Corp.:		
144A, 5.125%, 6/1/2021	15,000	15,094
144A, 5.625%, 6/1/2024	15,000	15,056
Berry Petroleum Co., LLC:		
6.375%, 9/15/2022	30,000	31,950
6.75%, 11/1/2020	140,000	147,350
BreitBurn Energy Partners LP:		
7.875%, 4/15/2022	95,000	102,837
8.625%, 10/15/2020	35,000	38,500
Chaparral Energy, Inc., 7.625%, 11/15/2022	20,000	21,600
Chesapeake Energy Corp., 3.479%**, 4/15/2019	40,000	40,450
Chesapeake Oilfield Operating LLC, 6.625%, 11/15/2019	25,000	26,875

	Principal Amount ($)(a)	Value ($)
CITGO Petroleum Corp., 144A, 11.5%, 7/1/2017	105,000	111,300
CONSOL Energy, Inc., 144A, 5.875%, 4/15/2022	15,000	15,713
Crestwood Midstream Partners LP:		
144A, 6.125%, 3/1/2022	20,000	21,050
7.75%, 4/1/2019	65,000	69,713
Dresser-Rand Group, Inc., 6.5%, 5/1/2021	75,000	80,250
Ecopetrol SA, 5.875%, 5/28/2045	250,000	258,570
EDC Finance Ltd., 144A, 4.875%, 4/17/2020	200,000	195,500
El Paso LLC, 7.25%, 6/1/2018	55,000	62,631
Endeavor Energy Resources LP, 144A, 7.0%, 8/15/2021	75,000	80,063
EP Energy LLC:		
6.875%, 5/1/2019	60,000	63,825
7.75%, 9/1/2022	40,000	45,100
9.375%, 5/1/2020	25,000	28,625
EV Energy Partners LP, 8.0%, 4/15/2019	140,000	147,000
EXCO Resources, Inc., 8.5%, 4/15/2022	20,000	21,600
Halcon Resources Corp.:		
8.875%, 5/15/2021	95,000	102,125
9.75%, 7/15/2020	80,000	87,300
Hilcorp Energy I LP, 144A, 5.0%, 12/1/2024 (c)	25,000	25,000
Holly Energy Partners LP, 6.5%, 3/1/2020	20,000	21,550
Kodiak Oil & Gas Corp., 5.5%, 1/15/2021 (b)	60,000	62,550
Linn Energy LLC, 6.25%, 11/1/2019	95,000	99,512
MEG Energy Corp.:		
144A, 6.5%, 3/15/2021	40,000	42,400
144A, 7.0%, 3/31/2024	75,000	82,688
Memorial Resource Development Corp., 144A, 5.875%, 7/1/2022 (c)	25,000	25,188
Midstates Petroleum Co., Inc.:		
9.25%, 6/1/2021	85,000	93,287
10.75%, 10/1/2020	85,000	96,475
Murphy Oil U.S.A., Inc., 6.0%, 8/15/2023	40,000	42,100
Northern Oil & Gas, Inc., 8.0%, 6/1/2020	90,000	96,075
Nostrum Oil & Gas Finance BV, 144A, 6.375%, 2/14/2019	200,000	209,000
Oasis Petroleum, Inc.:		
6.5%, 11/1/2021	25,000	26,875
144A, 6.875%, 3/15/2022	60,000	65,400
6.875%, 1/15/2023	25,000	27,250
7.25%, 2/1/2019	40,000	42,400
Offshore Drilling Holding SA, 144A, 8.375%, 9/20/2020	200,000	221,500
Offshore Group Investment Ltd.:		
7.125%, 4/1/2023	60,000	60,900
7.5%, 11/1/2019	20,000	21,150
Pacific Rubiales Energy Corp., 144A, 7.25%, 12/12/2021	250,000	277,500
Pertamina Persero PT, 144A, 5.625%, 5/20/2043	200,000	179,500
Petrobras Global Finance BV, 4.875%, 3/17/2020	200,000	205,420
Petroleos de Venezuela SA, 144A, 9.0%, 11/17/2021	300,000	254,970

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

		Principal Amount ($)(a)	Value ($)
Regency Energy Partners LP, 5.875%, 3/1/2022		5,000	5,431
Reliance Holding U.S.A., Inc., 144A, 5.4%, 2/14/2022		250,000	269,940
Rowan Companies, Inc., 4.75%, 1/15/2024		80,000	84,642
Sabine Pass Liquefaction LLC, 5.625%, 2/1/2021		105,000	111,037
Samson Investment Co., 144A, 10.75%, 2/15/2020		20,000	21,075
SandRidge Energy, Inc., 7.5%, 3/15/2021		105,000	113,794
SESI LLC:			
6.375%, 5/1/2019		40,000	42,700
7.125%, 12/15/2021		115,000	129,662
Seventy Seven Energy, Inc., 144A, 6.5%, 7/15/2022		5,000	5,125
Swift Energy Co., 7.875%, 3/1/2022		55,000	57,475
Talos Production LLC, 144A, 9.75%, 2/15/2018		60,000	63,600
Tesoro Corp., 4.25%, 10/1/2017		35,000	36,575
Transocean, Inc., 3.8%, 10/15/2022		145,000	143,510
Whiting Petroleum Corp., 5.0%, 3/15/2019		40,000	42,100
WPX Energy, Inc., 5.25%, 1/15/2017		40,000	42,600
			5,513,096
Financials 9.9%			
Assured Guaranty U.S. Holdings, Inc., 5.0%, 7/1/2024		65,000	64,613
Banco do Brasil SA, 144A, 9.0%, 12/31/2049		200,000	198,241
Banco Nacional de Costa Rica, 144A, 4.875%, 11/1/2018		200,000	205,000
Banco Santander Brasil SA, 144A, 8.0%, 3/18/2016	BRL	400,000	172,890
Barclays Bank PLC, 7.625%, 11/21/2022		400,000	456,600
BBVA Bancomer SA, 144A, 6.5%, 3/10/2021		200,000	225,500
CIT Group, Inc.:			
3.875%, 2/19/2019		145,000	147,262
5.0%, 5/15/2017		80,000	85,250
5.25%, 3/15/2018		90,000	96,637
Citigroup, Inc., 4.05%, 7/30/2022		70,000	71,715
Country Garden Holdings Co., Ltd., 144A, 11.125%, 2/23/2018		200,000	218,240
Development Bank of Kazakhstan JSC, Series 3, 6.5%, 6/3/2020		500,000	535,600
E*TRADE Financial Corp., 6.75%, 6/1/2016		130,000	141,050
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044		150,000	150,426
Hellas Telecommunications Finance, 144A, 8.328%**, 7/15/2015 (PIK)*	EUR	109,187	0
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022		110,000	116,372
ING Bank NV, 144A, 2.0%, 9/25/2015		200,000	203,218
International Lease Finance Corp.:			
3.875%, 4/15/2018		65,000	66,625
5.75%, 5/15/2016		20,000	21,425
6.25%, 5/15/2019		50,000	56,000
8.625%, 9/15/2015		40,000	43,300
8.75%, 3/15/2017		120,000	139,500
Intesa Sanpaolo SpA:			
3.875%, 1/16/2018		240,000	252,945
144A, 5.017%, 6/26/2024		200,000	202,363
Jefferies Group LLC, 5.125%, 1/20/2023		60,000	64,324
Macquarie Group Ltd., 144A, 6.0%, 1/14/2020		200,000	226,568
Morgan Stanley:			
3.75%, 2/25/2023		85,000	86,469
4.1%, 5/22/2023		85,000	86,225
Series H, 5.45%, 7/29/2049		20,000	20,365
MPT Operating Partnership LP:			
(REIT), 6.375%, 2/15/2022		45,000	48,262
(REIT), 6.875%, 5/1/2021		50,000	54,500
Navient Corp., 5.5%, 1/25/2023		125,000	123,906
Neuberger Berman Group LLC:			
144A, 5.625%, 3/15/2020		25,000	26,438
144A, 5.875%, 3/15/2022		45,000	48,038
Omega Healthcare Investors, Inc., (REIT), 144A, 4.95%, 4/1/2024		130,000	132,777
Popular, Inc., 7.0%, 7/1/2019 (c)		20,000	20,300
Royal Bank of Scotland Group PLC, 6.1%, 6/10/2023		100,000	109,459
Schahin II Finance Co. SPV Ltd., 144A, 5.875%, 9/25/2023 (b)		185,733	182,947
Societe Generale SA, 144A, 7.875%, 12/29/2049 (b)		110,000	117,287
The Goldman Sachs Group, Inc., Series L, 5.7%, 12/29/2049		35,000	36,159
Trust F/1401, (REIT), 144A, 5.25%, 12/15/2024		200,000	210,000
Turkiye Is Bankasi, 144A, 6.0%, 10/24/2022		250,000	250,125
Yapi ve Kredi Bankasi AS, 144A, 5.5%, 12/6/2022		200,000	189,860
			5,904,781
Health Care 2.9%			
Aviv Healthcare Properties LP:			
6.0%, 10/15/2021		15,000	15,900
7.75%, 2/15/2019		85,000	90,525
Biomet, Inc.:			
6.5%, 8/1/2020		55,000	59,262
6.5%, 10/1/2020		15,000	16,013
Community Health Systems, Inc.:			
5.125%, 8/15/2018		185,000	194,019
144A, 5.125%, 8/1/2021		5,000	5,125
144A, 6.875%, 2/1/2022		30,000	31,800
7.125%, 7/15/2020		60,000	64,950
Crimson Merger Sub, Inc., 144A, 6.625%, 5/15/2022		70,000	69,475
Endo Finance LLC:			
144A, 5.375%, 1/15/2023		35,000	34,956
144A, 5.75%, 1/15/2022		35,000	35,700
Fresenius Medical Care U.S. Finance II, Inc., 144A, 5.625%, 7/31/2019		35,000	38,150
Fresenius Medical Care U.S. Finance, Inc., 144A, 6.5%, 9/15/2018		20,000	22,600

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

	Principal Amount ($)(a)	Value ($)
HCA, Inc.:		
6.5%, 2/15/2020	210,000	236,250
7.5%, 2/15/2022	80,000	92,300
Hologic, Inc., 6.25%, 8/1/2020	30,000	31,650
LifePoint Hospitals, Inc., 144A, 5.5%, 12/1/2021	35,000	36,663
Mallinckrodt International Finance SA, 4.75%, 4/15/2023	75,000	72,937
Par Pharmaceutical Companies, Inc., 7.375%, 10/15/2020	55,000	59,125
Physio-Control International, Inc., 144A, 9.875%, 1/15/2019	48,000	53,040
Salix Pharmaceuticals Ltd., 144A, 6.0%, 1/15/2021	30,000	32,175
Tenet Healthcare Corp., 6.25%, 11/1/2018	80,000	88,800
Valeant Pharmaceuticals International, Inc.:		
144A, 6.375%, 10/15/2020	35,000	37,187
144A, 6.75%, 8/15/2018	70,000	75,425
144A, 7.5%, 7/15/2021	140,000	155,050
Warner Chilcott Co., LLC, 7.75%, 9/15/2018	75,000	78,847
		1,727,924

Industrials 5.5%

	Principal Amount ($)(a)	Value ($)
ADT Corp.:		
3.5%, 7/15/2022	20,000	18,200
4.125%, 4/15/2019	5,000	5,031
6.25%, 10/15/2021 (b)	25,000	26,500
Alphabet Holding Co., Inc., 7.75%, 11/1/2017 (PIK)	65,000	67,113
Armored Autogroup, Inc., 9.25%, 11/1/2018	105,000	110,512
Artesyn Escrow, Inc., 144A, 9.75%, 10/15/2020	40,000	39,300
BE Aerospace, Inc., 6.875%, 10/1/2020	25,000	27,156
Belden, Inc., 144A, 5.5%, 9/1/2022	55,000	56,925
Bombardier, Inc.:		
144A, 4.75%, 4/15/2019	20,000	20,350
144A, 5.75%, 3/15/2022	55,000	56,375
144A, 6.0%, 10/15/2022	35,000	35,875
144A, 7.75%, 3/15/2020	45,000	50,857
Casella Waste Systems, Inc., 7.75%, 2/15/2019	90,000	94,050
Cemex Finance LLC, 144A, 9.375%, 10/12/2022	200,000	235,250
Covanta Holding Corp., 5.875%, 3/1/2024	30,000	31,013
CTP Transportation Products LLC, 144A, 8.25%, 12/15/2019	35,000	37,713
Darling Ingredients, Inc., 144A, 5.375%, 1/15/2022	30,000	31,125
DigitalGlobe, Inc., 5.25%, 2/1/2021	25,000	24,750
Ducommun, Inc., 9.75%, 7/15/2018	65,000	72,333
Florida East Coast Holdings Corp., 144A, 6.75%, 5/1/2019	65,000	68,656
FTI Consulting, Inc., 6.75%, 10/1/2020	145,000	154,787
Garda World Security Corp., 144A, 7.25%, 11/15/2021	45,000	47,306
Gates Global LLC, 144A, 6.0%, 7/15/2022	30,000	30,000
GenCorp, Inc., 7.125%, 3/15/2021	80,000	87,400
Grupo KUO SAB De CV, 144A, 6.25%, 12/4/2022	200,000	209,500
Huntington Ingalls Industries, Inc.:		
6.875%, 3/15/2018	50,000	52,875
7.125%, 3/15/2021	10,000	10,925
Interactive Data Corp., 144A, 5.875%, 4/15/2019	35,000	35,525
KazAgro National Management Holding JSC, 144A, 4.625%, 5/24/2023	200,000	193,480
Kenan Advantage Group, Inc., 144A, 8.375%, 12/15/2018	25,000	26,750
Meritor, Inc.:		
6.25%, 2/15/2024	30,000	31,425
6.75%, 6/15/2021	40,000	43,024
Navios Maritime Holdings, Inc.:		
144A, 7.375%, 1/15/2022	110,000	113,300
8.125%, 2/15/2019	75,000	78,844
Nortek, Inc., 8.5%, 4/15/2021	75,000	82,875
Odebrecht Offshore Drilling Finance Ltd., 144A, 6.75%, 10/1/2022	192,840	206,435
Oshkosh Corp., 5.375%, 3/1/2022	22,500	23,175
Ply Gem Industries, Inc., 144A, 6.5%, 2/1/2022 (b)	40,000	38,700
Spirit AeroSystems, Inc.:		
144A, 5.25%, 3/15/2022	40,000	40,600
6.75%, 12/15/2020	75,000	80,625
Titan International, Inc., 6.875%, 10/1/2020	90,000	91,350
TransDigm, Inc.:		
144A, 6.0%, 7/15/2022	40,000	41,100
144A, 6.5%, 7/15/2024	25,000	26,031
7.5%, 7/15/2021	75,000	83,063
Triumph Group, Inc., 144A, 5.25%, 6/1/2022	20,000	20,050
United Rentals North America, Inc.:		
5.75%, 7/15/2018	60,000	63,450
7.375%, 5/15/2020	95,000	104,975
7.625%, 4/15/2022	95,000	106,637
Watco Companies LLC, 144A, 6.375%, 4/1/2023	25,000	25,500
		3,258,791

Information Technology 2.3%

	Principal Amount ($)(a)	Value ($)
ACI Worldwide, Inc., 144A, 6.375%, 8/15/2020	15,000	15,788
Activision Blizzard, Inc., 144A, 5.625%, 9/15/2021	130,000	140,075
Audatex North America, Inc., 144A, 6.0%, 6/15/2021	25,000	26,688
BMC Software Finance, Inc., 144A, 8.125%, 7/15/2021	65,000	66,869
Boxer Parent Co., Inc., 144A, 9.0%, 10/15/2019 (PIK)	40,000	39,000
CDW LLC, 8.5%, 4/1/2019	45,000	48,712
eAccess Ltd., 144A, 8.25%, 4/1/2018	60,000	64,800
EarthLink Holdings Corp., 7.375%, 6/1/2020	30,000	31,988
Entegris, Inc., 144A, 6.0%, 4/1/2022	20,000	20,600
Equinix, Inc.:		
5.375%, 4/1/2023	105,000	107,362
7.0%, 7/15/2021	40,000	44,200
First Data Corp.:		
144A, 6.75%, 11/1/2020	72,000	77,940
144A, 7.375%, 6/15/2019	45,000	48,319

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

	Principal Amount ($)(a)	Value ($)
144A, 8.75%, 1/15/2022 (PIK)	60,000	66,225
144A, 8.875%, 8/15/2020	85,000	94,031
Freescale Semiconductor, Inc., 144A, 6.0%, 1/15/2022	40,000	42,600
Hughes Satellite Systems Corp.:		
6.5%, 6/15/2019	70,000	78,050
7.625%, 6/15/2021	40,000	45,800
Jabil Circuit, Inc., 7.75%, 7/15/2016	30,000	33,937
Micron Technology, Inc., 144A, 5.875%, 2/15/2022	15,000	16,088
NCR Corp.:		
144A, 5.875%, 12/15/2021	10,000	10,550
144A, 6.375%, 12/15/2023	20,000	21,700
NXP BV, 144A, 3.75%, 6/1/2018	35,000	35,087
Sanmina Corp., 144A, 4.375%, 6/1/2019	5,000	4,994
Tencent Holdings Ltd., 144A, 3.375%, 5/2/2019	200,000	204,474
		1,385,877

Materials 6.7%

	Principal Amount ($)(a)	Value ($)
ALROSA Finance SA, 144A, 7.75%, 11/3/2020	200,000	221,260
Anglo American Capital PLC, 144A, 4.125%, 9/27/2022	250,000	251,881
Ashland, Inc., 3.875%, 4/15/2018	20,000	20,575
AuRico Gold, Inc., 144A, 7.75%, 4/1/2020	20,000	19,800
Berry Plastics Corp., 5.5%, 5/15/2022	60,000	60,337
BOE Intermediate Holding Corp., 144A, 9.0%, 11/1/2017 (PIK)	43,858	45,996
Braskem Finance Ltd., 6.45%, 2/3/2024	200,000	213,750
Cascades, Inc., 144A, 5.5%, 7/15/2022	20,000	19,950
Clearwater Paper Corp., 7.125%, 11/1/2018	65,000	68,250
Cliffs Natural Resources, Inc., 3.95%, 1/15/2018	115,000	116,533
Crown Americas LLC, 6.25%, 2/1/2021	10,000	10,700
Exopack Holding Corp., 144A, 10.0%, 6/1/2018	40,000	43,000
First Quantum Minerals Ltd.:		
144A, 6.75%, 2/15/2020	70,000	72,100
144A, 7.0%, 2/15/2021	70,000	72,012
FMG Resources (August 2006) Pty Ltd.:		
144A, 6.0%, 4/1/2017	55,000	56,787
144A, 8.25%, 11/1/2019	45,000	48,994
Fresnillo PLC, 144A, 5.5%, 11/13/2023	200,000	209,000
Glencore Funding LLC, 144A, 4.125%, 5/30/2023	110,000	110,478
Greif, Inc., 7.75%, 8/1/2019	195,000	224,250
GTL Trade Finance, Inc., 144A, 5.893%, 4/29/2024 (b)	200,000	209,800
Hexion U.S. Finance Corp.:		
6.625%, 4/15/2020	70,000	74,200
8.875%, 2/1/2018	60,000	62,400
Huntsman International LLC:		
8.625%, 3/15/2020	60,000	64,950
8.625%, 3/15/2021	25,000	27,625
IAMGOLD Corp., 144A, 6.75%, 10/1/2020	40,000	37,000
Kaiser Aluminum Corp., 8.25%, 6/1/2020	40,000	45,000
KGHM International Ltd., 144A, 7.75%, 6/15/2019	115,000	123,481
Metalloinvest Finance Ltd., 144A, 5.625%, 4/17/2020	200,000	194,000
Novelis, Inc., 8.75%, 12/15/2020	215,000	238,650
Owens-Brockway Glass Container, Inc., 7.375%, 5/15/2016	30,000	33,000
Packaging Dynamics Corp., 144A, 8.75%, 2/1/2016	90,000	92,430
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021	40,000	42,200
Polymer Group, Inc., 7.75%, 2/1/2019	49,000	52,063
Rain CII Carbon LLC, 144A, 8.0%, 12/1/2018	45,000	47,250
Samarco Mineracao SA, 144A, 5.75%, 10/24/2023	200,000	209,940
Sealed Air Corp.:		
144A, 8.125%, 9/15/2019	30,000	33,038
144A, 8.375%, 9/15/2021	30,000	34,350
Signode Industrial Group Lux SA, 144A, 6.375%, 5/1/2022	30,000	30,375
Tronox Finance LLC, 6.375%, 8/15/2020	30,000	30,975
Turkiye Sise ve Cam Fabrikalari AS, 144A, 4.25%, 5/9/2020	300,000	289,500
Yamana Gold, Inc., 144A, 4.95%, 7/15/2024	120,000	120,789
		3,978,669

Telecommunication Services 7.9%

	Principal Amount ($)(a)	Value ($)
B Communications Ltd., 144A, 7.375%, 2/15/2021	35,000	37,625
CC Holdings GS V LLC, 3.849%, 4/15/2023	70,000	70,272
CenturyLink, Inc.:		
Series V, 5.625%, 4/1/2020	15,000	15,825
Series W, 6.75%, 12/1/2023	35,000	38,238
Cincinnati Bell, Inc.:		
8.375%, 10/15/2020	235,000	257,619
8.75%, 3/15/2018 (b)	210,000	220,237
Colombia Telecomunicaciones SA ESP, 144A, 5.375%, 9/27/2022	200,000	199,700
CommScope, Inc., 144A, 5.0%, 6/15/2021	35,000	35,700
CPI International, Inc., 8.75%, 2/15/2018	45,000	47,138
Digicel Group Ltd.:		
144A, 7.125%, 4/1/2022	35,000	36,488
144A, 8.25%, 9/30/2020	105,000	114,450
Digicel Ltd., 144A, 8.25%, 9/1/2017	300,000	308,640
Frontier Communications Corp.:		
7.125%, 1/15/2023	200,000	212,000
8.25%, 4/15/2017	62,000	71,997
8.5%, 4/15/2020	20,000	23,600
Intelsat Jackson Holdings SA:		
5.5%, 8/1/2023	55,000	54,725
7.25%, 10/15/2020	195,000	210,112
7.5%, 4/1/2021	215,000	235,425
8.5%, 11/1/2019	100,000	106,250
Intelsat Luxembourg SA:		
7.75%, 6/1/2021	95,000	100,581
8.125%, 6/1/2023	10,000	10,813

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

	Principal Amount ($)(a)	Value ($)
Level 3 Communications, Inc., 8.875%, 6/1/2019	10,000	10,938
Level 3 Financing, Inc.:		
144A, 6.125%, 1/15/2021	20,000	21,425
7.0%, 6/1/2020	75,000	81,937
8.125%, 7/1/2019	75,000	81,844
8.625%, 7/15/2020	50,000	56,000
MetroPCS Wireless, Inc.:		
6.625%, 11/15/2020	65,000	69,387
7.875%, 9/1/2018	75,000	78,772
Millicom International Cellular SA, 144A, 4.75%, 5/22/2020	200,000	200,000
SBA Communications Corp., 5.625%, 10/1/2019	30,000	31,763
SBA Telecommunications, Inc., 8.25%, 8/15/2019	16,000	16,768
Sprint Communications, Inc.:		
144A, 7.0%, 3/1/2020	40,000	46,000
144A, 9.0%, 11/15/2018	175,000	212,187
9.125%, 3/1/2017	50,000	58,563
Sprint Corp., 144A, 7.125%, 6/15/2024	110,000	116,600
T-Mobile U.S.A., Inc.:		
6.125%, 1/15/2022	15,000	15,919
6.5%, 1/15/2024	15,000	16,031
6.625%, 4/1/2023 (b)	35,000	37,975
tw telecom holdings, Inc.:		
5.375%, 10/1/2022	40,000	43,750
6.375%, 9/1/2023	35,000	39,813
UPCB Finance V Ltd., 144A, 7.25%, 11/15/2021	30,000	33,000
UPCB Finance VI Ltd., 144A, 6.875%, 1/15/2022	10,000	10,925
Verizon Communications, Inc., 6.55%, 9/15/2043	200,000	251,688
VimpelCom Holdings BV, 144A, 7.504%, 3/1/2022	200,000	215,750
Wind Acquisition Finance SA, 144A, 6.5%, 4/30/2020	30,000	32,513
Windstream Corp.:		
6.375%, 8/1/2023	40,000	40,550
7.5%, 4/1/2023	75,000	81,187
7.75%, 10/15/2020	20,000	21,675
7.75%, 10/1/2021	55,000	60,087
7.875%, 11/1/2017	205,000	236,006
8.125%, 9/1/2018	70,000	73,500
		4,699,988

Utilities 1.6%

	Principal Amount ($)(a)	Value ($)
AES Corp.:		
3.229%**, 6/1/2019	20,000	20,150
8.0%, 10/15/2017	2,000	2,330
8.0%, 6/1/2020	175,000	210,437
Calpine Corp.:		
144A, 7.5%, 2/15/2021	64,000	69,440
144A, 7.875%, 7/31/2020	70,000	75,950
Electricite de France SA, 144A, 5.25%, 1/29/2049	100,000	102,013
Energy Future Holdings Corp., Series Q, 6.5%, 11/15/2024*	100,000	75,500
FirstEnergy Transmission LLC, 144A, 4.35%, 1/15/2025	100,000	101,032
IPALCO Enterprises, Inc., 5.0%, 5/1/2018	145,000	154,787
NGL Energy Partners LP, 144A, 5.125%, 7/15/2019 (c)	30,000	30,075
NRG Energy, Inc.:		
144A, 6.25%, 5/1/2024	100,000	104,500
7.875%, 5/15/2021	30,000	33,263
		979,477
Total Corporate Bonds (Cost $31,913,830)		**33,419,218**

Asset-Backed 1.6%

Home Equity Loans 0.4%

	Principal Amount ($)(a)	Value ($)
CIT Group Home Equity Loan Trust, "AF6", Series 2002-1, 6.2%, 2/25/2030	52,609	52,467
Citifinancial Mortgage Securities, Inc., "AFS", Series 2003-4, 5.826%**, 10/25/2033	190,000	198,205
		250,672

Miscellaneous 1.2%

	Principal Amount ($)(a)	Value ($)
ARES CLO Ltd., "D", Series 2012-3A, 144A, 4.876%**, 1/17/2024	250,000	250,544
Domino's Pizza Master Issuer LLC, "A2", Series 2012-1A, 144A, 5.216%, 1/25/2042	144,938	155,753
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	300,000	299,983
		706,280
Total Asset-Backed (Cost $923,823)		**956,952**

Commercial Mortgage-Backed Securities 3.3%

	Principal Amount ($)(a)	Value ($)
Commercial Mortgage Trust, "AM", Series 2007-GG11, 5.867%, 12/10/2049	290,000	320,482
Del Coronado Trust, "M", Series 2013-HDMZ, 144A, 5.152%**, 3/15/2018	80,000	80,504
JPMorgan Chase Commercial Mortgage Securities Corp., "C", Series 2012-HSBC, 144A, 4.021%, 7/5/2032	150,000	156,087
Prudential Commercial Mortgage Trust, "F", Series 2003-PWR1, 144A, 5.233%**, 2/11/2036	500,000	500,782
Wachovia Bank Commercial Mortgage Trust, "A4", Series 2005-C22, 5.455%**, 12/15/2044	140,000	146,814
WFRBS Commercial Mortgage Trust, "A5", Series 2013-C14, 3.337%, 6/15/2046	750,000	757,990
Total Commercial Mortgage-Backed Securities (Cost $1,903,454)		**1,962,659**

Collateralized Mortgage Obligations 3.2%

	Principal Amount ($)(a)	Value ($)
Banc of America Mortgage Securities, "2A2", Series 2004-A, 2.680%**, 2/25/2034	100,950	101,187
Bear Stearns Adjustable Rate Mortgage Trust, "2A1", Series 2005-11, 2.999%**, 12/25/2035	126,765	127,680
Countrywide Home Loans, "2A5", Series 2004-13, 5.75%, 8/25/2034	90,126	93,197

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

		Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp.:			
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025		1,204,739	115,723
"ZG", Series 4213, 3.5%, 6/15/2043		108,429	108,521
"JI", Series 3558, Interest Only, 4.5%, 12/15/2023		44,781	1,657
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038		431,567	54,995
"HI", Series 2934, Interest Only, 5.0%, 2/15/2020		118,217	11,844
"WI", Series 3010, Interest Only, 5.0%, 7/15/2020		186,375	17,659
"JS", Series 3572, Interest Only, 6.648%***, 9/15/2039		700,892	112,143
Federal National Mortgage Association:			
"BI", Series 2010-13, Interest Only, 5.0%, 12/25/2038		79,076	6,267
"PI", Series 2006-20, Interest Only, 6.528%***, 11/25/2030		419,504	72,558
"SI", Series 2007-23, Interest Only, 6.618%***, 3/25/2037		277,830	39,284
Government National Mortgage Association:			
"ZJ", Series 2013-106, 3.5%, 7/20/2043		353,928	344,646
"MI", Series 2009-76, Interest Only, 5.0%, 3/20/2035		18,207	22
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039		380,982	67,033
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039		383,720	64,599
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039		353,566	64,975
"AI", Series 2007-38, Interest Only, 6.308%***, 6/16/2037		98,515	15,023
JPMorgan Mortgage Trust, "2A1", Series 2006-A2, 2.657%**, 4/25/2036		292,866	267,337
Merrill Lynch Mortgage Investors Trust, "2A", Series 2003-A6, 2.654%**, 10/25/2033		80,061	80,815
Wells Fargo Mortgage-Backed Securities Trust, "2A3", Series 2004-EE, 2.612%**, 12/25/2034		114,076	114,722
Total Collateralized Mortgage Obligations (Cost $1,729,312)			**1,881,887**

Government & Agency Obligations 14.6%

Other Government Related (d) 3.0%

		Principal Amount ($)(a)	Value ($)
Bank of Moscow, 144A, 6.699%, 3/11/2015		250,000	257,028
MMC Norilsk Nickel OJSC, 144A, 5.55%, 10/28/2020		200,000	201,000
Queensland Treasury Corp., Series 33, 6.5%, 3/14/2033	AUD	828,000	978,394
Sberbank of Russia, 144A, 5.25%, 5/23/2023		200,000	187,500
TMK OAO, 144A, 6.75%, 4/3/2020		200,000	195,000
			1,818,922

Sovereign Bonds 8.1%

		Principal Amount ($)(a)	Value ($)
Federative Republic of Brazil:			
4.25%, 1/7/2025		200,000	202,700
12.5%, 1/5/2016	BRL	250,000	118,522
Government of France, 0.7%, 7/25/2030	EUR	566,085	786,148
Kingdom of Morocco, 144A, 4.25%, 12/11/2022		250,000	250,313
Province of New Brunswick Canada, 3.55%, 6/3/2043	CAD	900,000	806,926
Republic of Argentina-Inflation Linked Bond, 5.83%, 12/31/2033	ARS	375	122
Republic of Belarus, REG S, 8.75%, 8/3/2015		145,000	149,176
Republic of Croatia, 144A, 6.75%, 11/5/2019		400,000	448,500
Republic of El Salvador, 144A, 7.65%, 6/15/2035		200,000	216,300
Republic of Ghana, 144A, 8.5%, 10/4/2017		100,000	105,000
Republic of Hungary, 4.125%, 2/19/2018		50,000	52,125
Republic of Romania, 4.875%, 11/7/2019	EUR	100,000	155,203
Republic of Singapore, 3.375%, 9/1/2033	SGD	1,243,000	1,052,347
Republic of Slovenia, 144A, 4.75%, 5/10/2018		200,000	215,500
Republic of South Africa, Series R204, 8.0%, 12/21/2018	ZAR	550,000	52,553
Republic of Sri Lanka, 144A, 5.125%, 4/11/2019		200,000	203,250
			4,814,685

U.S. Treasury Obligations 3.5%

		Principal Amount ($)(a)	Value ($)
U.S. Treasury Bills:			
0.03%****, 12/11/2014 (e)		57,000	56,987
0.055%****, 8/14/2014 (e)		15,000	15,000
0.055%****, 12/11/2014 (e)		150,000	149,966
0.065%****, 8/14/2014		239,000	238,993
U.S. Treasury Notes:			
1.0%, 8/31/2016 (f)		500,000	505,156
1.0%, 9/30/2016		500,000	504,844
1.5%, 5/31/2019		232,600	231,437
2.5%, 5/15/2024		360,000	359,494
			2,061,877
Total Government & Agency Obligations (Cost $8,440,245)			**8,695,484**

Loan Participations and Assignments 5.0%

Senior Loans**

		Principal Amount ($)(a)	Value ($)
American Rock Salt Holdings LLC:			
First Lien Term Loan, 4.75%, 5/20/2021		84,635	84,725
Term Delay Draw, 4.75%, 5/20/2021		20,365	20,387
Avis Budget Car Rental LLC, Term Loan B, 3.0%, 3/15/2019		59,548	59,567
Buffalo Gulf Coast Terminals LLC, Term Loan, 5.25%, 10/31/2017		73,875	74,337
Burger King Corp., Term Loan B, 3.75%, 9/28/2019		68,775	69,162
Calpine Corp., Term Loan B1, 4.0%, 4/1/2018		192,513	193,455
Crown Castle International Corp., Term Loan B, 2.4%, 1/31/2019		49,005	49,112
CSC Holdings, Inc., Term Loan B, 2.65%, 4/17/2020		128,256	127,075

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

	Principal Amount ($)(a)	Value ($)
Cumulus Media Holdings, Inc., Term Loan, 4.25%, 12/23/2020	29,539	29,687
DaVita HealthCare Partners, Inc., Term Loan B, 3.75%, 6/24/2021	70,000	70,402
Goodyear Tire & Rubber Co., Second Lien Term Loan, 4.75%, 4/30/2019	220,000	221,616
HJ Heinz Co., Term Loan B2, 3.5%, 6/5/2020	247,500	249,637
MacDermid, Inc., First Lien Term Loan, 4.0%, 6/7/2020	54,450	54,552
MEG Energy Corp., Term Loan, 3.75%, 3/31/2020	256,710	257,433
NRG Energy, Inc., Term Loan B, 2.75%, 7/2/2018	117,827	117,753
Par Pharmaceutical Companies, Inc., Term Loan B2, 4.0%, 9/30/2019	117,324	117,324
Pilot Travel Centers LLC:		
Term Loan B, 3.75%, 3/30/2018	89,374	89,652
Term Loan B2, 4.25%, 8/7/2019	334,050	335,511
Quebecor Media, Inc., Term Loan B1, 3.25%, 8/17/2020	89,325	88,339
Samson Investment Co., Second Lien Term Loan, 5.0%, 9/25/2018	175,000	175,066
Tallgrass Operations LLC:		
Term Loan B, 4.25%, 11/13/2018	161,008	162,450
Term Delay Draw, 4.75%, 11/13/2017	50,000	50,344
Travelport LLC, Second Lien Term Loan, 9.5%, 1/29/2016	5,040	5,204
Valeant Pharmaceuticals International, Inc.:		
Term Loan B, 3.75%, 2/13/2019	157,990	158,237
Term Loan B, 3.75%, 12/11/2019	133,304	133,373
Total Loan Participations and Assignments (Cost $2,989,135)		**2,994,400**

Municipal Bonds and Notes 1.6%

	Principal Amount ($)(a)	Value ($)
Chicago, IL, Airport Revenue, O'Hare International Airport, Series B, 6.0%, 1/1/2041	145,000	166,237
Massachusetts, State School Building Authority, Sales Tax Revenue, Qualified School Construction Bond, Series A, 4.885%, 7/15/2028	300,000	318,540
Orlando & Orange County, FL, Expressway Authority Revenue, Series C, 5.0%, 7/1/2040	145,000	154,782
Port Authority of New York & New Jersey, 4.926%, 10/1/2051	260,000	289,190
Total Municipal Bonds and Notes (Cost $850,516)		**928,749**

Convertible Bond 0.4%

Materials

	Principal Amount ($)(a)	Value ($)
GEO Specialty Chemicals, Inc., 144A, 7.5%, 3/31/2015 (Cost $119,305)	120,175	**241,972**

Preferred Security 0.1%

Materials

	Principal Amount ($)(a)	Value ($)
Hercules, Inc., 6.5%, 6/30/2029 (Cost $59,811)	95,000	**85,975**

Common Stocks 0.0%

	Shares	Value ($)
Consumer Discretionary 0.0%		
Dawn Holdings, Inc.* (g)	1	4,366
Trump Entertainment Resorts, Inc.*	6	0
		4,366
Industrials 0.0%		
Congoleum Corp.*	2,500	**0**
Materials 0.0%		
GEO Specialty Chemicals, Inc.*	2,058	**1,590**
Total Common Stocks (Cost $25,217)		**5,956**

Preferred Stock 0.2%

Financials

	Shares	Value ($)
Ally Financial, Inc., Series G, 144A, 7.0% (Cost $85,127)	89	**89,670**

Warrants 0.0%

Materials

	Shares	Value ($)
GEO Specialty Chemicals, Inc., Expiration Date 3/31/2015*	11,138	8,526
Hercules Trust II, Expiration Date 3/31/2029*	85	547
Total Warrants (Cost $17,432)		**9,073**

Exchange-Traded Fund 4.9%

	Shares	Value ($)
SPDR Barclays Convertible Securities (Cost $2,777,628)	58,300	**2,944,150**

Call Options Purchased 0.2%

Options on Interest Rate Swap Contracts

	Contract Amount	Value ($)
Pay Fixed Rate — 3.72% – Receive Floating — LIBOR, Swap Expiration Date 4/22/2026, Option Expiration Date 4/20/2016[1]	1,300,000	28,066
Pay Fixed Rate — 4.19% – Receive Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[2]	1,500,000	34,213
Pay Fixed Rate — 4.32% – Receive Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[3]	1,400,000	28,088
Total Call Options Purchased (Cost $191,320)		**90,367**

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

	Contract Amount	Value ($)
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[2]	1,500,000	11,638
Receive Fixed Rate — 2.32% – Pay Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[3]	1,400,000	13,450
Total Put Options Purchased (Cost $98,573)		**25,088**

	Shares	Value ($)
Securities Lending Collateral 2.1%		
Daily Assets Fund Institutional, 0.08% (h) (i) (Cost $1,252,899)	1,252,899	**1,252,899**
Cash Equivalents 9.9%		
Central Cash Management Fund, 0.06% (h) (Cost $5,887,663)	5,887,663	**5,887,663**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $59,265,290)[†]	103.2	**61,472,162**
Other Assets and Liabilities, Net (b)	(3.2)	**(1,921,405)**
Net Assets	100.0	**59,550,757**

The following table represents bonds that are in default:

Security	Coupon	Maturity Date		Principal Amount	Cost ($)	Value ($)
Energy Future Holdings Corp.*	6.5%	11/15/2024	USD	100,000	58,139	75,500
Hellas Telecommunications Finance*	8.328%	7/15/2015	EUR	109,187	32,169	0
					90,308	**75,500**

* 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, 2014.

*** These securities are shown at their current rate as of June 30, 2014.

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

† The cost for federal income tax purposes was $59,272,071. At June 30, 2014, net unrealized appreciation for all securities based on tax cost was $2,200,091. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $2,615,207 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $415,116.

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

(b) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at June 30, 2014 amounted to $1,197,256, which is 2.0% of net assets.

(c) When-issued security.

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

(e) At June 30, 2014, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(f) At June 30, 2014, this security has been pledged, in whole or in part, to cover initial margin requirements for open centrally cleared swaps.

(g) 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
Dawn Holdings, Inc.*	August 2013	5,273	4,366	.01

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

(i) 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.

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

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

REIT: Real Estate Investment Trust

SPDR: Standard & Poor's Depositary Receipt

At June 30, 2014, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
10 Year U.S. Treasury Note	USD	9/19/2014	22	2,753,781	25,202
5 Year U.S. Treasury Note	USD	9/30/2014	48	5,734,125	33,415
Total unrealized appreciation					**58,617**

At June 30, 2014, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
10 Year Canadian Government Bond	CAD	9/19/2014	19	2,421,274	(25,713)
10 Year U.S. Treasury Note	USD	9/19/2014	26	3,254,469	(7,313)
Euro-BTP Italian Government Bond	EUR	9/8/2014	9	1,555,005	(27,868)
Euro-OAT French Government Bond	EUR	9/8/2014	14	2,693,989	(39,563)
U.S. Treasury Long Bond	USD	9/19/2014	7	960,313	(2,695)
Ultra Long U.S. Treasury Bond	USD	9/19/2014	9	1,349,438	(17,267)
Total unrealized depreciation					**(120,419)**

At June 30, 2014, open written options contracts were as follows:

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[2]	2/1/2017	50,400	(39,614)
Receive Fixed — 3.32% – Pay Floating — LIBOR	2/3/2017 2/3/2027	700,000[3]	2/1/2017	50,631	(35,539)
Receive Fixed — 4.22% – Pay Floating — LIBOR	4/22/2016 4/22/2026	1,300,000[1]	4/20/2016	46,345	(14,895)
Total Call Options				**147,376**	**(90,048)**
Put Options					
Pay Fixed — 3.19% – Receive Floating — LIBOR	2/3/2017 2/3/2027	700,000[2]	2/1/2017	50,400	(22,203)
Pay Fixed — 3.32% – Receive Floating — LIBOR	2/3/2017 2/3/2027	700,000[3]	2/1/2017	50,631	(25,686)
Total Put Options				**101,031**	**(47,889)**
Total				**248,407**	**(137,937)**

(j) Unrealized appreciation on written options on interest rate swap contracts at June 30, 2014 was $110,470.

At June 30, 2014, open credit default swap contracts sold were as follows:

Bilateral Swaps

Effective/ Expiration Dates	Notional Amount ($) (k)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (l)	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Appreciation ($)
6/21/2010 9/20/2015	90,000[4]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BBB–	5,509	(391)	5,900
3/21/2011 6/20/2016	120,000[2]	5.0%	HCA, Inc., 6.375%, 1/15/2015, B–	10,368	1,772	8,596
12/20/2011 3/20/2017	60,000[5]	5.0%	CIT Group, Inc., 5.5%, 2/15/2019, BB–	6,664	1,376	5,288
9/20/2012 12/20/2017	75,000[6]	5.0%	General Motors Corp., 3.3%, 12/20/2017, BB+	10,727	3,872	6,855
6/20/2013 9/20/2018	40,000[5]	5.0%	DISH DBS Corp., 6.75%, 6/1/2021, BB–	6,084	3,018	3,066
6/20/2013 9/20/2018	125,000[7]	5.0%	HCA, Inc., 8.0%, 10/1/2018, B–	17,215	8,438	8,777
6/20/2013 9/20/2018	100,000[4]	5.0%	Sprint Communications, Inc., 6.0%, 12/1/2016, BB–	12,322	5,016	7,306
Total unrealized appreciation						**45,788**

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, 2014, open interest rate swap contracts were as follows:

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
12/30/2014 12/30/2016	1,900,000	Fixed — 1.173%	Floating — LIBOR	(9,758)	(9,956)
12/30/2014 12/30/2019	500,000	Floating — LIBOR	Fixed — 2.522%	12,683	13,111
12/30/2014 12/30/2024	2,300,000	Fixed — 3.524%	Floating — LIBOR	(147,415)	(147,188)
12/30/2014 12/30/2034	100,000	Floating — LIBOR	Fixed — 4.01%	10,697	11,394
12/30/2014 12/30/2044	200,000	Floating — LIBOR	Fixed — 4.081%	26,639	26,887
Total net unrealized depreciation					**(105,752)**

Counterparties:

1 Nomura International PLC

2 JPMorgan Chase Securities, Inc.

3 BNP Paribas

4 Bank of America

5 Credit Suisse

6 UBS AG

7 Goldman Sachs & Co.

At June 30, 2014, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	1,770,812	EUR	1,300,000	7/21/2014	9,406	Australia & New Zealand Banking Group Ltd.
USD	689,530	CAD	752,000	7/23/2014	14,859	Canadian Imperial Bank of Commerce
USD	1,775,745	JPY	180,000,000	8/4/2014	1,504	Macquarie Bank Ltd.
USD	289,619	MXN	3,800,000	8/18/2014	2,341	Commonwealth Bank of Australia
USD	570,355	ZAR	6,200,000	8/18/2014	8,113	Commonwealth Bank of Australia
ZAR	6,200,000	USD	578,794	8/18/2014	326	Commonwealth Bank of Australia
ZAR	560,000	USD	52,522	8/18/2014	273	Nomura International PLC
RUB	10,050,000	USD	291,859	9/30/2014	2,108	Societe Generale
Total unrealized appreciation					**38,930**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
USD	1,473,039	NOK	8,900,000	7/21/2014	(23,089)	Societe Generale
USD	595,898	NOK	3,600,000	7/21/2014	(9,401)	Citigroup. Inc.
USD	2,099,640	NZD	2,400,000	7/21/2014	(1,945)	Citigroup. Inc.
NZD	1,700,000	USD	1,474,369	7/21/2014	(11,498)	Australia & New Zealand Banking Group Ltd.
NOK	6,300,000	USD	1,025,416	7/21/2014	(954)	Barclays Bank PLC
NOK	6,300,000	USD	1,025,503	7/21/2014	(866)	Societe Generale
NZD	700,000	USD	607,716	7/21/2014	(4,112)	Citigroup. Inc.
AUD	1,154,230	USD	1,073,188	7/23/2014	(13,559)	Nomura International PLC
SGD	1,641,500	USD	1,313,554	7/23/2014	(2,918)	Commonwealth Bank of Australia
CAD	2,095,672	USD	1,902,096	7/23/2014	(60,891)	Barclays Bank PLC
EUR	567,300	USD	769,957	7/23/2014	(6,908)	Australia & New Zealand Banking Group Ltd.
Total unrealized depreciation					**(136,141)**	

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

Currency Abbreviations

ARS	Argentine Peso	JPY	Japanese Yen	SGD	Singapore Dollar
AUD	Australian Dollar	MXN	Mexican Peso	USD	United States Dollar
BRL	Brazilian Real	NOK	Norwegian Krone	ZAR	South African Rand
CAD	Canadian Dollar	NZD	New Zealand Dollar		
EUR	Euro	RUB	Russian Ruble		

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

Fair Value Measurements

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

The following is a summary of the inputs used as of June 30, 2014 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	$ —	$ 33,419,218	$ 0	$ 33,419,218
Asset-Backed	—	956,952	—	956,952
Commercial Mortgage-Backed Securities	—	1,962,659	—	1,962,659
Collateralized Mortgage Obligations	—	1,881,887	—	1,881,887
Government & Agency Obligations	—	8,695,484	—	8,695,484
Loan Participations and Assignments	—	2,920,063	74,337	2,994,400
Municipal Bonds and Notes	—	928,749	—	928,749
Convertible Bond	—	—	241,972	241,972
Preferred Security	—	85,975	—	85,975
Common Stocks (m)	—	—	5,956	5,956
Preferred Stock	—	89,670	—	89,670
Warrants	—	—	9,073	9,073
Exchange-Traded Fund	2,944,150	—	—	2,944,150
Short-Term Investments (m)	7,140,562	—	—	7,140,562
Derivatives (n)				
Purchased Options	—	115,455	—	115,455
Futures Contracts	58,617	—	—	58,617
Credit Default Swap Contracts	—	45,788	—	45,788
Interest Rate Swap Contracts	—	51,392	—	51,392
Forward Foreign Currency Exchange Contracts	—	38,930	—	38,930
Total	**$ 10,143,329**	**$ 51,192,222**	**$ 331,338**	**$ 61,666,889**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (n)				
Futures Contracts	$ (120,419)	$ —	$ —	$ (120,419)
Written Options	—	(137,937)	—	(137,937)
Interest Rate Swap Contracts	—	(157,144)	—	(157,144)
Forward Foreign Currency Exchange Contracts	—	(136,141)	—	(136,141)
Total	**$ (120,419)**	**$ (431,222)**	**$ —**	**$ (551,641)**

During the period ended June 30, 2014, the amount of transfers between Level 2 and Level 3 was $74,337. The investment was 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, unrealized appreciation (depreciation) on 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, 2014 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $52,124,728) — including $1,197,256 of securities loaned	$	54,331,600
Investment in Daily Assets Fund Institutional (cost $1,252,899)*		1,252,899
Investment in Central Cash Management Fund (cost $5,887,663)		5,887,663
Total investments in securities, at value (cost $59,265,290)		61,472,162
Foreign currency, at value (cost $423,279)		424,572
Receivable for investments sold		1,046,928
Receivable for investments sold — when-issued/delayed delivery securities		39,744
Receivable for Fund shares sold		128
Interest receivable		639,328
Receivable for variation margin on futures contracts		4,180
Receivable for variation margin on centrally cleared swaps		6,654
Unrealized appreciation on bilateral swap contracts		45,788
Unrealized appreciation on forward foreign currency exchange contracts		38,930
Upfront payments paid on bilateral swap contracts		23,492
Other assets		605
Total assets	$	63,742,511

Liabilities		
Cash overdraft		143,206
Payable upon return of securities loaned		1,252,899
Payable for investments purchased		2,229,489
Payable for investments purchased — when-issued/delayed delivery securities		139,906
Payable for Fund shares redeemed		51,581
Options written, at value (premiums received $248,407)		137,937
Unrealized depreciation on forward foreign currency exchange contracts		136,141
Upfront payments received on bilateral swap contracts		391
Accrued management fee		13,489
Accrued Trustees' fees		573
Other accrued expenses and payables		86,142
Total liabilities		4,191,754
Net assets, at value	**$**	**59,550,757**

Net Assets Consist of		
Undistributed net investment income		988,899
Net unrealized appreciation (depreciation) on:		
Investments		2,206,872
Swap contracts		(59,964)
Futures		(61,802)
Foreign currency		(95,255)
Written options		110,470
Accumulated net realized gain (loss)		(1,105,169)
Paid-in capital		57,566,706
Net assets, at value	**$**	**59,550,757**
Class A		
Net Asset Value, offering and redemption price per share ($59,550,757 ÷ 5,183,668 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.49**

* 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, 2014 (Unaudited)

Investment Income	
Income:	
Interest	$ 1,491,595
Dividends	21,026
Income distributions — Central Cash Management Fund	705
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	2,031
Total income	1,515,357
Expenses:	
Management fee	161,443
Administration fee	29,353
Services to shareholders	424
Custodian fee	35,067
Professional fees	40,952
Reports to shareholders	13,941
Pricing fee	25,645
Trustees' fees and expenses	2,293
Other	1,779
Total expenses before expense reductions	310,897
Expense reductions	(87,682)
Total expenses after expense reductions	223,215
Net investment income	**1,292,142**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	(426,572)
Swap contracts	15,275
Futures	(70,584)
Foreign currency	413,907
	(67,974)
Change in net unrealized appreciation (depreciation) on:	
Investments	1,974,254
Swap contracts	(109,289)
Unfunded loan commitment	125
Futures	(57,685)
Written options	99,763
Foreign currency	(346,572)
	1,560,596
Net gain (loss)	**1,492,622**
Net increase (decrease) in net assets resulting from operations	**$ 2,784,764**

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, 2014 (Unaudited)	Year Ended December 31, 2013
Operations:		
Net investment income	$ 1,292,142	$ 2,911,005
Net realized gain (loss)	(67,974)	(1,186,626)
Change in net unrealized appreciation (depreciation)	1,560,596	(2,619,441)
Net increase (decrease) in net assets resulting from operations	2,784,764	(895,062)
Distributions to shareholders from:		
Net investment income:		
Class A	(2,905,554)	(3,703,120)
Net realized gains:		
Class A	—	(2,113,421)
Total distributions	(2,905,554)	(5,816,541)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,959,692	8,233,284
Reinvestment of distributions	2,905,554	5,816,541
Payments for shares redeemed	(6,150,708)	(19,881,192)
Net increase (decrease) in net assets from Class A share transactions	(1,285,462)	(5,831,367)
Increase (decrease) in net assets	(1,406,252)	(12,542,970)
Net assets at beginning of period	60,957,009	73,499,979
Net assets at end of period (including undistributed net investment income of $988,899 and $2,602,311, respectively)	**$ 59,550,757**	**$ 60,957,009**

Other Information		
Class A		
Shares outstanding at beginning of period	5,284,551	5,832,490
Shares sold	171,230	666,814
Shares issued to shareholders in reinvestment of distributions	258,501	491,677
Shares redeemed	(530,614)	(1,706,430)
Net increase (decrease) in Class A shares	(100,883)	(547,939)
Shares outstanding at end of period	**5,183,668**	**5,284,551**

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

Financial Highlights

Class A	Six Months Ended 6/30/14 (Unaudited)	2013	Years Ended December 31, 2012	2011	2010	2009
Selected Per Share Data						
Net asset value, beginning of period	**$11.53**	**$12.60**	**$11.90**	**$11.96**	**$11.61**	**$10.03**
Income (loss) from investment operations:						
Net investment income[a]	.25	.49	.57	.63	.66	.63
Net realized and unrealized gain (loss)	.30	(.59)	.92	(.01)	.47	1.50
Total from investment operations	.55	(.10)	1.49	.62	1.13	2.13
Less distributions from:						
Net investment income	(.59)	(.62)	(.76)	(.68)	(.78)	(.55)
Net realized gains	—	(.35)	(.03)	—	—	—
Total distributions	(.59)	(.97)	(.79)	(.68)	(.78)	(.55)
Net asset value, end of period	**$11.49**	**$11.53**	**$12.60**	**$11.90**	**$11.96**	**$11.61**
Total Return (%)[b]	4.87**	(1.04)	13.08	5.31	10.05	22.73
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	60	61	73	69	76	74
Ratio of expenses before expense reductions (%)	1.06*	1.02	.99	.99	.95	.86
Ratio of expenses after expense reductions (%)	.76*	.74	.77	.79	.86	.80
Ratio of net investment income (%)	4.40*	4.16	4.72	5.38	5.62	5.96
Portfolio turnover rate (%)	59**	183	164	144	167	370

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

Deutsche Unconstrained Income VIP (formerly DWS Unconstrained Income VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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, prepayment speeds and other data, as well as broker quotes. If the pricing services are unable to provide valuations, debt securities are valued at the average of the most recent reliable bid quotations or evaluated prices, as applicable, obtained from broker-dealers and loan participations and assignments are valued at the mean of the most recent bid and ask quotations or evaluated prices, as applicable, obtained from one or more broker-dealers. 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. 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. Equity securities and ETFs are generally categorized as Level 1.

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 considered 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 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, 2014, the Fund had securities on loan. The value of the related collateral 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 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 refinancing. 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 with only 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 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 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. Additionally, the Fund may be required to post securities and/or cash collateral in accordance with the terms 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.

At December 31, 2013, the Fund had net tax basis capital loss carryforwards of approximately $1,042,000, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($671,000) and long-term losses ($371,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2013 and has determined that no provision for income tax and/or uncertain tax provisions 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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments. 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

Swaps. A swap is a contract between two parties to exchange future cash flows at periodic intervals based on the notional amount of the swap. A bilateral swap is a transaction between the fund and a counterparty where cash flows are exchanged between the two parties. A centrally cleared swap is a transaction executed between the fund and a counterparty, then cleared by a clearing member through a central clearinghouse. The central clearinghouse serves as the counterparty, with whom the fund exchanges cash flows.

The value of a 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. Gains or losses are realized when the swap expires or is closed. Certain risks may arise when entering into swap transactions including counterparty default; liquidity; or unfavorable changes in interest rates or the value of the underlying reference security, commodity or index. In connection with bilateral swaps, securities and/or cash may be identified as collateral in accordance with the terms of the swap agreement 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 swap, 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. Upon entering into a centrally cleared swap, 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 notional amount of the swap. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value of the swap. In a cleared swap transaction, counterparty risk is minimized as the central clearinghouse acts as the counterparty.

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.

Interest Rate Swaps. Interest rate swaps are agreements in which the Fund agrees to pay to 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. The payment obligations are based on the notional amount of the swap. For the six months ended June 30, 2014, the Fund entered into interest rate swap agreements to gain exposure to different parts of the yield curve while managing overall duration.

A summary of the open interest rate swap contracts as of June 30, 2014 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2014, the investment in interest rate swap contracts had a total notional amount of $5,000,000.

Credit Default Swaps. Credit default swaps are agreements between a buyer and a seller of protection against predefined credit events for the reference entity. The Fund may enter into credit default swaps 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 of a credit default swap, 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 swap 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 swaps, in which case the Fund functions as the counterparty referenced above. This involves the risk that the swap 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, 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 swaps sold by the Fund. For the six months ended June 30, 2014, the Fund entered into credit default swap agreements to gain exposure to the underlying issuer's credit quality characteristics.

Under the terms of a credit default swap, the Fund receives or makes periodic 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 swap 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, 2014 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2014, the investment in credit default swap contracts sold had a total notional value of $610,000.

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. The Fund may write or purchase interest rate swaption agreements which are options to enter into a pre-defined swap agreement. 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. 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, 2014, the Fund entered into options 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.

A summary of the open purchased option contracts as of June 30, 2014 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, 2014, the investment in written option contracts had a total value generally indicative of a range from approximately $138,000 to $238,000, and purchased option contracts had a total value generally indicative of a range from approximately $115,000 to $276,000.

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, 2014, 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.

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, 2014 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2014, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $357,000 to $8,488,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $5,598,000 to $12,234,000.

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, 2014, 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.

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, 2014 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2014, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $9,544,000 to $22,228,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $2,864,000 to $20,021,000. 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 $5,199,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2014 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)	$ 115,455	$ —	$ 51,392	$ 58,617	$ 225,464
Credit Contracts (b)	—	—	45,788	—	45,788
Foreign Exchange Contracts (c)	—	38,930	—	—	38,930
	$ 115,455	**$ 38,930**	**$ 97,180**	**$ 58,617**	**$ 310,182**

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

(a) Includes cumulative appreciation of futures and centrally cleared swap 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 bilateral 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)	$ (137,937)	$ —	$ (157,144)	$ (120,419)	$ (415,500)
Foreign Exchange Contracts (c)	—	(136,141)	—	—	(136,141)
	$ (137,937)	**$ (136,141)**	**$ (157,144)**	**$ (120,419)**	**$ (551,641)**

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

(a) Includes cumulative depreciation of futures and centrally cleared swap 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

(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, 2014 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ —	$ (3,036)	$ (70,584)	$ (73,620)
Credit Contracts (a)	—	18,311	—	18,311
Foreign Exchange Contracts (b)	386,528	—	—	386,528
	$ 386,528	**$ 15,275**	**(70,584)**	**$ 331,219**

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

(a) Net realized gain (loss) from 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)	$ (160,242)	$ 99,763	$ —	$ (109,256)	$ (57,685)	$ (227,420)
Credit Contracts (a)	—	—	—	(33)	—	(33)
Foreign Exchange Contracts (b)	—	—	(339,314)	—	—	(339,314)
	$ (160,242)	**$ 99,763**	**$ (339,314)**	**$ (109,289)**	**$ (57,685)**	**$ (566,767)**

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, 2014, the Fund has transactions subject to enforceable master netting agreements. A reconciliation of the gross amounts on the Statements 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	Financial Instruments and Derivatives Available for Offset	Collateral Received	Net Amount of Derivative Assets
Australia & New Zealand Banking Group Ltd.	$ 9,406	$ (9,406)	$ —	$ —
Bank of America	13,206	—	—	13,206
BNP Paribas	41,538	(41,538)	—	—
Canadian Imperial Bank of Commerce	14,859	—	—	14,859
Commonwealth Bank of Australia	10,780	(2,918)	—	7,862
Credit Suisse	8,354	—	—	8,354
Goldman Sachs & Co.	8,777	—	—	8,777
JPMorgan Chase Securities, Inc.	54,447	(54,447)	—	—
Macquarie Bank Ltd.	1,504	—	—	1,504
Nomura International PLC	28,339	(28,339)	—	—
Societe Generale	2,108	(2,108)	—	—
UBS AG	6,855	—	—	6,855
	$ 200,173	**$ (138,756)**	**$ —**	**$ 61,417**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Collateral Pledged	Net Amount of Derivative Liabilities
Australia & New Zealand Banking Group Ltd.	$ 18,406	$ (9,406)	$ —	$ 9,000
Barclays Bank PLC	61,845	—	—	61,845
BNP Paribas	61,225	(41,538)	—	19,687
Citigroup, Inc.	15,458	—	—	15,458
Commonwealth Bank of Australia	2,918	(2,918)	—	—
JPMorgan Chase Securities, Inc.	61,817	(54,447)	—	7,370
Nomura International PLC	28,454	(28,339)	—	115
Societe Generale	23,955	(2,108)	—	21,847
	$ 274,078	**$ (138,756)**	**$ —**	**$ 135,322**

C. Purchases and Sales of Securities

During the six months ended June 30, 2014, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $28,874,174 and $34,513,230, respectively. Purchases and sales of U.S. Treasury obligations aggregated $5,316,804 and $7,552,263, respectively.

For the six months ended June 30, 2014, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premiums
Outstanding, beginning of period	4,100,000	$ 248,407
Outstanding, end of period	**4,100,000**	**$ 248,407**

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	.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%

Accordingly, for the six months ended June 30, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annualized effective rate (exclusive of any applicable waivers/reimbursements) of 0.55% of the Fund's average daily net assets.

For the period from January 1, 2014 through April 30, 2015, 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 0.76%.

For the six months ended June 30, 2014, fees waived and/or expenses reimbursed amounted to $87,682.

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, 2014, the Administration Fee was $29,353, of which $4,883 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended June 30, 2014, the amounts charged to the Fund by DSC aggregated $77, of which $37 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $9,235, of which $5,659 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 Deutsche 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 Deutsche 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 Deutsche 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 Deutsche 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, 2014, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $179.

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, 2014, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 65% and 32%.

H. Line of Credit

The Fund and other affiliated funds (the “Participants”) share in a $400 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, 2014.

I. Fund Name Change

Effective August 11, 2014, the “DWS Funds” were rebranded “Deutsche Funds.”

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, 2014 to June 30, 2014).

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, 2014

Actual Fund Return	**Class A**
Beginning Account Value 1/1/14	$1,000.00
Ending Account Value 6/30/14	$1,048.70
Expenses Paid per $1,000*	$ 3.86

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/14	$1,000.00
Ending Account Value 6/30/14	$1,021.03
Expenses Paid per $1,000*	$ 3.81

* 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**
Deutsche Variable Series II — Deutsche Unconstrained Income VIP	.76%

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 the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of DWS Unconstrained Income VIP's investment management agreement (the “Agreement”) with Deutsche Investment Management Americas Inc. (“DIMA”) in September 2013.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2013, all but one of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Asset Allocation Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the “Fee Consultant”). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent Trustees were also advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG, a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

As part of the contract review process, the Board carefully considered the fees and expenses of each DWS fund overseen by the Board in light of the fund's performance. In many cases, this led to a negotiation with DIMA of lower expense caps as part of the 2012 and 2013 contract review processes than had previously been in place. As part of these negotiations, the Board indicated that it would consider relaxing these new lower caps in future years following sustained improvements in performance, among other considerations.

In June 2012, Deutsche Bank AG (“DB”), DIMA's parent company, announced that DB would combine its Asset Management (of which DIMA was a part) and Wealth Management divisions. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that it has, and will continue to, reinvest a significant portion of the substantial savings it expects to realize by combining its Asset Management and Wealth Management divisions into the new Asset and Wealth Management (“AWM”) division, including ongoing enhancements to its investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the Fee

Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2012, the Fund's performance (Class A shares) was in the 2nd quartile, 2nd quartile and 1st quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one-, three- and five-year periods ended December 31, 2012.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were equal to the median of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2012). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2012, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive.

The information considered by the Board as part of its review of management fees included information regarding fees charged by DIMA and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also

considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DIMA's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and their independent counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2UI-3 (R-028389-3 8/14)

Dreyfus Investment Portfolios, MidCap Stock Portfolio

SEMIANNUAL REPORT June 30, 2014

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, 2014, through June 30, 2014. 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.

U.S. equities defied many analysts' expectations over the first half of 2014 when some broad measures of stock market performance continued to achieve new record highs in the wake of very robust performance in 2013. Strong corporate earnings and rising business and consumer confidence more than offset concerns regarding geopolitical tensions in overseas markets and a weather-related domestic economic contraction during the first quarter of the year.

We believe we already have seen signs that the economy's winter contraction will likely prove temporary, including stronger labor markets, greater manufacturing activity, rebounding housing starts, and rising household wealth. While these developments portend well for corporate earnings over the remainder of the year, our portfolio managers are aware that some stocks and industry groups have reached richer valuations, which suggests that selectivity and a long-term perspective could become more important determinants of potential investment success. As always, we encourage you to talk with your financial advisor about our observations and their implications for your investments.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona
President
The Dreyfus Corporation
July 15, 2014

DISCUSSION OF FUND PERFORMANCE

For the period of January 1, 2014, through June 30, 2014, 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, 2014, Dreyfus Investment Portfolios, MidCap Stock Portfolio's Initial shares produced a total return of 7.95%, and its Service shares produced a total return of 7.77%.[1] In comparison, the fund's benchmark, the Standard & Poor's MidCap 400® Index (the "S&P 400 Index"), produced a total return of 7.50% for the same period.[2]

U.S. equities rose during the first six months of 2014 in an environment of continued domestic economic growth and strong corporate earnings reports. Midcap stocks generally produced higher returns than their larger-cap and smaller-cap counterparts. The fund capitalized on the favorable climate for midcap stocks, outperforming its benchmark primarily due to the success of our security selection process in the consumer staples, industrials, and information technology sectors.

The Fund's Investment Approach

The fund seeks investment results that are greater than the total return performance of publicly traded common stocks of medium-size domestic companies in the aggregate, as represented by the S&P 400 Index. To pursue this goal, the fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in stocks of midcap 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.

Midcap Stocks Gained Ground Despite Headwinds

After soaring to new record highs in 2013, U.S. equity markets stalled during the first two months of 2014 in the face of severe winter weather that held back economic activity. Markets were further undermined by uncertainties regarding the Federal Reserve Board's efforts to taper its asset purchasing program, rising geopolitical tensions in Ukraine, and renewed concerns regarding economic slowdowns in China and other emerging markets. U.S. equities gained ground again in March on the strength of improving U.S. employment data and increasing levels of manufacturing activity, but investors remained cautious, favoring defensive, value-oriented issues over their more growth-oriented, economically sensitive counterparts.

Additional improvement in jobs data and solid corporate earnings reports further encouraged investors during the final months of the reporting period, as did improving global economic prospects despite rising unrest in the Middle East. As investor confidence improved, market leadership began to shift back in favor of cyclical stocks and those sensitive to rising interest rates. Midcap stocks performed particularly well, generating stronger returns than small-cap stocks and edging out large-cap stocks in the closing weeks of June.

Stock Selection Strategy Drove Fund Performance

The fund participated fully in the midcap stock market's gains, modestly outperforming its benchmark due to the effective performance of our disciplined, quantitative security selection process. Our computer models added value by identifying attractive stocks using a variety of quality, valuation, and behavioral metrics.

The fund produced particularly robust results in the consumer staples sector, led by gains in packaged foods producer Hillshire Brands, which nearly doubled in value during an acquisition bidding war by two competitors. In the industrials sector, selection among professional services and construction-and-engineering firms added incremental value to relative performance, adding to favorable performance within the sector compared to the benchmark. One individual contributor to the sector was aerospace-and-defense contractor *Alliant Techsystems*, which posted better-than-expected quarterly earnings. The fund's holdings in the information technology sector also enhanced relative results. Our timely purchase and sale of digital storage company *SanDisk*, was one example of success within technology which offset disappointing returns from business process services provider NeuStar Class A.

On the other hand, the fund produced lower returns than its benchmark in the materials sector, where the fund's basket of chemical industry holdings lagged sector averages. In the consumer discretionary sector, losses in specialty retailer *GameStop, Class A* and a few other holdings were partly offset by relatively good gains in apparel maker Hanesbrands, which delivered strong earnings, raised the guidance it provided to analysts, and announced an accretive acquisition. Likewise, in the health care sector, weaker-than-expected reported revenue led to declines in biotechnology company, United Therapeutics. This was largely offset by better returns from health plan provider Health Net, which gained value during the reporting period.

Continuing to Find Attractive Midcap Opportunities

Overall, we have been pleased with the positive performance of U.S. equities and by the relatively strong returns of the midcap asset class during an otherwise challenging reporting period. Despite the rally in equities, our bottom-up, quantitative investment process has continued to identify individual companies with attractive valuations and high levels of earnings quality in our view. Using this process, and by diversifying the fund's assets across market sectors, we continue to seek opportunities in midcap companies.

July 15, 2014

Please note, the position in any security highlighted with italicized typeface was sold during the reporting period.
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, 2014 to June 30, 2014. 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, 2014

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.43	$ 5.72
Ending value (after expenses)	$1,079.50	$1,077.70

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, 2014

	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, 2014 (Unaudited)

Common Stocks—99.5%	Shares		Value ($)
Banks—5.2%			
Associated Banc-Corp	148,000		2,675,840
BancorpSouth	79,100		1,943,487
BankUnited	5,600		187,488
Cathay General Bancorp	50,500		1,290,780
Comerica	11,900		596,904
East West Bancorp	81,400		2,848,186
Fulton Financial	21,100		261,429
			9,804,114
Capital Goods—12.2%			
Hexcel	34,500	a	1,411,050
Huntington Ingalls Industries	28,600		2,705,274
IDEX	39,400		3,181,156
ITT	8,700		418,470
Lennox International	33,400		2,991,638
Lincoln Electric Holdings	38,000		2,655,440
Masco	22,000		488,400
Oshkosh	56,100		3,115,233
SPX	27,900		3,019,059
Trinity Industries	68,000		2,972,960
			22,958,680
Commercial & Professional Services—1.7%			
Deluxe	34,600		2,026,868
Manpowergroup	14,300		1,213,355
			3,240,223
Consumer Durables & Apparel—5.0%			
Deckers Outdoor	34,500	a	2,978,385
Hanesbrands	40,700		4,006,508
NVR	160	a	184,096
Whirlpool	15,800		2,199,676
			9,368,665

Common Stocks (continued)	Shares	Value ($)
Consumer Services—.6%		
Domino's Pizza	3,600	263,124
Hyatt Hotels, Cl. A	9,300 [a]	567,114
Wyndham Worldwide	4,700	355,884
		1,186,122
Diversified Financials—4.6%		
Affiliated Managers Group	9,480 [a]	1,947,192
CBOE Holdings	12,100	595,441
Moody's	3,700	324,342
Navient	46,900	830,599
SEI Investments	61,000	1,998,970
Waddell & Reed Financial, Cl. A	47,200	2,954,248
		8,650,792
Energy—5.7%		
Chesapeake Energy	78,300	2,433,564
Dril-Quip	26,200 [a]	2,862,088
EQT	18,900	2,020,410
Kosmos Energy	18,500 [a]	207,755
SM Energy	39,700	3,338,770
		10,862,587
Food, Beverage & Tobacco—1.0%		
Hillshire Brands	17,300	1,077,790
Ingredion	6,300	472,752
Tootsie Roll Industries	11,988 [b]	352,927
		1,903,469
Health Care Equipment & Services—7.0%		
Boston Scientific	175,300 [a]	2,238,581
C.R. Bard	7,600	1,086,876
Health Net	74,100 [a]	3,078,114
Hill-Rom Holdings	61,300	2,544,563
Owens & Minor	6,500 [b]	220,870
STERIS	21,200	1,133,776

Common Stocks (continued)	Shares		Value ($)
Health Care Equipment & Services (continued)			
Universal Health Services, Cl. B	26,300		2,518,488
VCA	12,400	a	435,116
			13,256,384
Household & Personal Products—1.9%			
Energizer Holdings	29,400		**3,587,682**
Insurance—4.6%			
American Financial Group	4,200		250,152
Everest Re Group	20,400		3,273,996
The Hanover Insurance Group	24,900		1,572,435
Lincoln National	12,600		648,144
Old Republic International	33,600		555,744
Protective Life	14,500		1,005,285
StanCorp Financial Group	22,400		1,433,600
			8,739,356
Materials—7.5%			
Cabot	31,900		1,849,881
Commercial Metals	106,800		1,848,708
Olin	95,600		2,573,552
Packaging Corporation of America	24,000		1,715,760
Reliance Steel & Aluminum	14,900		1,098,279
Scotts Miracle-Gro, Cl. A	38,500		2,189,110
Worthington Industries	68,900		2,965,456
			14,240,746
Media—3.0%			
John Wiley & Sons, Cl. A	24,000		1,454,160
Morningstar	6,700		481,127
New York Times, Cl. A	88,700		1,349,127
Starz, Cl. A	78,700	a	2,344,473
			5,628,887

Common Stocks (continued)	Shares		Value ($)
Pharmaceuticals, Biotech & Life Sciences—4.5%			
Charles River Laboratories International	32,200	a	1,723,344
Covance	7,500	a	641,850
Mettler-Toledo International	13,800	a	3,493,884
United Therapeutics	29,100	a	2,575,059
			8,434,137
Real Estate—6.2%			
Camden Property Trust	15,500	c	1,102,825
CBL & Associates Properties	87,100	c	1,654,900
Corrections Corporation of America	73,035	c	2,399,200
Extra Space Storage	12,500	c	665,625
National Retail Properties	37,200	c	1,383,468
Omega Healthcare Investors	44,500	b,c	1,640,270
Potlatch	26,900	c	1,113,660
Weingarten Realty Investors	52,500	c	1,724,100
			11,684,048
Retailing—3.1%			
Bed Bath & Beyond	37,600	a	2,157,488
Dillard's, Cl. A	3,600		419,796
GNC Holdings, Cl. A	13,300		453,530
O'Reilly Automotive	8,700	a	1,310,220
PetSmart	26,300		1,572,740
			5,913,774
Semiconductors & Semiconductor Equipment—4.5%			
Integrated Device Technology	200,600	a	3,101,276
International Rectifier	100,700	a	2,809,530
Skyworks Solutions	57,100		2,681,416
			8,592,222
Software & Services—7.5%			
Amdocs	10,500		486,465
ANSYS	41,500	a	3,146,530
Convergys	37,300		799,712

Common Stocks (continued)	Shares		Value ($)
Software & Services (continued)			
DST Systems	30,044		2,769,155
FactSet Research Systems	26,100	[b]	3,139,308
Mentor Graphics	111,300		2,400,741
NeuStar, Cl. A	54,100	[a,b]	1,407,682
			14,149,593
Technology Hardware & Equipment—3.8%			
Arrow Electronics	50,300	[a]	3,038,623
Brocade Communications Systems	124,800		1,148,160
Ingram Micro, Cl. A	6,700	[a]	195,707
NetApp	61,400		2,242,328
Vishay Intertechnology	38,200		591,718
			7,216,536
Transportation—4.2%			
Kirby	28,600	[a]	3,350,204
Matson	40,500		1,087,020
Old Dominion Freight Line	15,500	[a]	987,040
Southwest Airlines	90,000		2,417,400
			7,841,664
Utilities—5.7%			
Cleco	38,500		2,269,575
Entergy	17,100		1,403,739
IDACORP	45,500		2,631,265
National Fuel Gas	41,600		3,257,280
PNM Resources	41,600		1,220,128
			10,781,987
Total Common Stocks (cost $156,808,025)			**188,041,668**

Other Investment—.5%			
Registered Investment Company;			
Dreyfus Institutional Preferred Plus Money Market Fund (cost $951,054)	951,054	[d]	**951,054**

Investment of Cash Collateral for Securities Loaned—3.5%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Fund (cost $6,561,314)	6,561,314 [d]	**6,561,314**
Total Investments (cost $164,320,393)	**103.5%**	**195,554,036**
Liabilities, Less Cash and Receivables	**(3.5%)**	**(6,666,624)**
Net Assets	**100.0%**	**188,887,412**

[a] *Non-income producing security.*
[b] *Security, or portion thereof, on loan. At June 30, 2014, the value of the fund's securities on loan was $6,457,854 and the value of the collateral held by the fund was $6,561,314.*
[c] *Investment in real estate investment trust.*
[d] *Investment in affiliated money market mutual fund.*

Portfolio Summary (Unaudited)†

	Value (%)		Value (%)
Capital Goods	12.2	Semiconductors & Semiconductor Equipment	4.5
Materials	7.5	Transportation	4.2
Software & Services	7.5	Money Market Investments	4.0
Health Care Equipment & Services	7.0	Technology Hardware & Equipment	3.8
Real Estate	6.2	Retailing	3.1
Energy	5.7	Media	3.0
Utilities	5.7	Household & Personal Products	1.9
Banks	5.2	Commercial & Professional Services	1.7
Consumer Durables & Apparel	5.0	Food, Beverage & Tobacco	1.0
Diversified Financials	4.6	Consumer Services	.6
Insurance	4.6		
Pharmaceuticals, Biotech & Life Sciences	4.5		**103.5**

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

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2014 (Unaudited)

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments (including securities on loan, valued at $6,457,854)—Note 1(b):		
Unaffiliated issuers	156,808,025	188,041,668
Affiliated issuers	7,512,368	7,512,368
Cash		145,324
Dividends and securities lending income receivable		171,407
		195,870,767
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(b)		127,307
Liability for securities on loan—Note 1(b)		6,561,314
Payable for shares of Beneficial Interest redeemed		250,020
Accrued expenses		44,714
		6,983,355
Net Assets ($)		**188,887,412**
Composition of Net Assets ($):		
Paid-in capital		137,632,016
Accumulated undistributed investment income—net		706,925
Accumulated net realized gain (loss) on investments		19,314,828
Accumulated net unrealized appreciation (depreciation) on investments		31,233,643
Net Assets ($)		**188,887,412**

Net Asset Value Per Share	Initial Shares	Service Shares
Net Assets ($)	164,202,767	24,684,645
Shares Outstanding	7,402,753	1,114,333
Net Asset Value Per Share ($)	**22.18**	**22.15**

See notes to financial statements.

STATEMENT OF OPERATIONS

Six Months Ended June 30, 2014 (Unaudited)

Investment Income ($):	
Income:	
Cash dividends:	
Unaffiliated issuers	1,437,687
Affiliated issuers	240
Income from securities lending—Note 1(b)	37,895
Total Income	**1,475,822**
Expenses:	
Management fee—Note 3(a)	673,732
Professional fees	35,945
Trustees' fees and expenses—Note 3(c)	29,852
Distribution fees—Note 3(b)	28,666
Prospectus and shareholders' reports	13,935
Custodian fees—Note 3(b)	9,617
Loan commitment fees—Note 2	497
Shareholder servicing costs—Note 3(b)	482
Miscellaneous	9,956
Total Expenses	**802,682**
Less—reduction in fees due to earnings credits—Note 3(b)	(2)
Net Expenses	**802,680**
Investment Income—Net	**673,142**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	19,348,943
Net unrealized appreciation (depreciation) on investments	(6,091,969)
Net Realized and Unrealized Gain (Loss) on Investments	**13,256,974**
Net Increase in Net Assets Resulting from Operations	**13,930,116**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended June 30, 2014 (Unaudited)	Year Ended December 31, 2013
Operations ($):		
Investment income—net	673,142	1,800,471
Net realized gain (loss) on investments	19,348,943	24,580,779
Net unrealized appreciation (depreciation) on investments	(6,091,969)	22,964,034
Net Increase (Decrease) in Net Assets Resulting from Operations	**13,930,116**	**49,345,284**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(1,600,836)	(2,004,668)
Service Shares	(180,578)	(239,571)
Net realized gain on investments:		
Initial Shares	(868,833)	–
Service Shares	(126,481)	–
Total Dividends	**(2,776,728)**	**(2,244,239)**
Beneficial Interest Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	4,898,711	9,556,906
Service Shares	2,787,508	4,690,114
Dividends reinvested:		
Initial Shares	2,469,669	2,004,668
Service Shares	307,059	239,571
Cost of shares redeemed:		
Initial Shares	(11,559,639)	(22,485,449)
Service Shares	(3,689,924)	(4,832,159)
Increase (Decrease) in Net Assets from Beneficial Interest Transactions	**(4,786,616)**	**(10,826,349)**
Total Increase (Decrease) in Net Assets	**6,366,772**	**36,274,696**
Net Assets ($):		
Beginning of Period	182,520,640	146,245,944
End of Period	**188,887,412**	**182,520,640**
Undistributed investment income—net	706,925	1,815,197

	Six Months Ended June 30, 2014 (Unaudited)	Year Ended December 31, 2013
Capital Share Transactions:		
Initial Shares		
Shares sold	232,988	526,247
Shares issued for dividends reinvested	117,940	114,815
Shares redeemed	(549,881)	(1,227,217)
Net Increase (Decrease) in Shares Outstanding	**(198,953)**	**(586,155)**
Service Shares		
Shares sold	131,077	257,048
Shares issued for dividends reinvested	14,678	13,721
Shares redeemed	(176,080)	(265,704)
Net Increase (Decrease) in Shares Outstanding	**(30,325)**	**5,065**

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, 2014 (Unaudited)	Year Ended December 31, 2013	2012	2011	2010	2009
Per Share Data ($):						
Net asset value, beginning of period	20.87	15.68	13.16	13.17	10.46	7.85
Investment Operations:						
Investment income—net[a]	.08	.20	.23	.06	.06	.11
Net realized and unrealized gain (loss) on investments	1.56	5.24	2.36	.00[b]	2.76	2.62
Total from Investment Operations	1.64	5.44	2.59	.06	2.82	2.73
Distributions:						
Dividends from investment income—net	(.21)	(.25)	(.07)	(.07)	(.11)	(.12)
Dividends from net realized gain on investments	(.12)	–	–	–	–	–
Total Distributions	(.33)	(.25)	(.07)	(.07)	(.11)	(.12)
Net asset value, end of period	22.18	20.87	15.68	13.16	13.17	10.46
Total Return (%)	7.95[c]	34.99	19.67	.40	27.10	35.51
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	.86[d]	.86	.85	.86	.84	.84
Ratio of net expenses to average net assets	.86[d]	.86	.85	.86	.84	.84
Ratio of net investment income to average net assets	.78[d]	1.11	1.58	.50	.54	1.22
Portfolio Turnover Rate	47.91[c]	68.72	73.96	81.48	79.28	75.42
Net Assets, end of period ($ x 1,000)	164,203	158,682	128,410	123,187	147,155	131,962

[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, 2014 (Unaudited)	Year Ended December 31, 2013	2012	2011	2010	2009
Per Share Data ($):						
Net asset value, beginning of period	20.83	15.65	13.14	13.16	10.46	7.82
Investment Operations:						
Investment income—net [a]	.06	.16	.19	.02	.05	.10
Net realized and unrealized gain (loss) on investments	1.55	5.23	2.35	.01	2.76	2.63
Total from Investment Operations	1.61	5.39	2.54	.03	2.81	2.73
Distributions:						
Dividends from investment income—net	(.17)	(.21)	(.03)	(.05)	(.11)	(.09)
Dividends from net realized gain on investments	(.12)	–	–	–	–	–
Total Distributions	(.29)	(.21)	(.03)	(.05)	(.11)	(.09)
Net asset value, end of period	22.15	20.83	15.65	13.14	13.16	10.46
Total Return (%)	7.77[b]	34.70	19.34	.20	26.94	35.33
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	1.11[c]	1.11	1.10	1.11	1.09	1.09
Ratio of net expenses to average net assets	1.11[c]	1.11	1.10	1.11	.97	.90
Ratio of net investment income to average net assets	.53[c]	.86	1.32	.18	.40	1.16
Portfolio Turnover Rate	47.91[b]	68.72	73.96	81.48	79.28	75.42
Net Assets, end of period ($ x 1,000)	24,685	23,838	17,836	17,050	19,586	16,090

[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 generally 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 generally categorized within Level 3 of the fair value hierarchy.

The following is a summary of the inputs used as of June 30, 2014 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†	188,041,668	–	–	**188,041,668**
Mutual Funds	7,512,368	–	–	**7,512,368**

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

At June 30, 2014, 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 or 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, 2014, The Bank of New York Mellon earned $11,843 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, 2014 were as follows:

Affiliated Investment Company	Value 12/31/2013 ($)	Purchases ($)	Sales ($)	Value 6/30/2014 ($)	Net Assets (%)
Dreyfus Institutional Preferred Plus Money Market Fund	386,757	9,145,218	8,580,921	951,054	.5
Dreyfus Institutional Cash Advantage Fund	8,127,185	46,233,674	47,799,545	6,561,314	3.5
Total	**8,513,942**	**55,378,892**	**56,380,466**	**7,512,368**	**4.0**

(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, 2014, 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 ended June 30, 2014, the fund did not incur any interest or penalties.

Each tax year in the three-year period ended December 31, 2013 remains subject to examination by the Internal Revenue Service and state taxing authorities.

The tax character of distributions paid to shareholders during the fiscal year ended December 31, 2013 was as follows: ordinary income $2,244,239. 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 $265 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, 2014, 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, 2014, Service shares were charged $28,666 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 and cash management services for the fund. The majority of transfer agency fees are comprised of amounts paid on a per account basis, while cash management fees are related to fund subscriptions and redemptions. During the period ended June 30, 2014, the fund was charged $409 for transfer agency services and $28 for cash management services. These fees are included in Shareholder servicing costs in the Statement of Operations. Cash management fees were partially offset by earnings credits of $2.

The fund compensates The Bank of New York Mellon under a custody agreement for providing custodial services for the fund. These fees are determined based on net assets, geographic region and transaction activity. During the period ended June 30, 2014, the fund was charged $9,617 pursuant to the custody agreement.

During the period ended June 30, 2014, the fund was charged $4,593 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 $114,870, Distribution Plan fees $4,899, custodian fees $5,083, Chief Compliance Officer fees $2,209 and transfer agency fees $246.

(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, 2014, amounted to $86,972,608 and $93,963,862, respectively.

At June 30, 2014, accumulated net unrealized appreciation on investments was $31,233,643, consisting of $34,400,170 gross unrealized appreciation and $3,166,527 gross unrealized depreciation.

At June 30, 2014, 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.

0174SA0614

The Dreyfus Socially Responsible Growth Fund, Inc.

SEMIANNUAL REPORT June 30, 2014

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 The Dreyfus Socially Responsible Growth Fund, Inc., covering the six-month period from January 1, 2014, through June 30, 2014. 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.

U.S. equities defied many analysts' expectations over the first half of 2014 when some broad measures of stock market performance continued to achieve new record highs in the wake of very robust performance in 2013. Strong corporate earnings and rising business and consumer confidence more than offset concerns regarding geopolitical tensions in overseas markets and a weather-related domestic economic contraction during the first quarter of the year.

We believe we already have seen signs that the economy's winter contraction will likely prove temporary, including stronger labor markets, greater manufacturing activity, rebounding housing starts, and rising household wealth. While these developments portend well for corporate earnings over the remainder of the year, our portfolio managers are aware that some stocks and industry groups have reached richer valuations, which suggests that selectivity and a long-term perspective could become more important determinants of potential investment success. As always, we encourage you to talk with your financial advisor about our observations and their implications for your investments.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona
President
The Dreyfus Corporation
July 15, 2014

DISCUSSION OF FUND PERFORMANCE

For the period of January 1, 2014, through June 30, 2014, 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, 2014, The Dreyfus Socially Responsible Growth Fund's Initial shares produced a total return of 8.56%, and the fund's Service shares returned 8.42%.[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 7.12% for the same period.[2]

Stocks continued to rally over the reporting period as the U.S. economic recovery regained momentum. The fund produced higher returns than its benchmark, mainly due to the success of our disciplined investment process in the consumer discretionary and energy sectors.

The Fund's Investment Approach

The fund seeks capital growth, with current income as a secondary objective. To pursue these goals, the fund invests at least 80% of its 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.

Stocks Climbed Despite Economic Uncertainty

U.S. stocks generally recovered over the first half of 2014 after a steep sell-off in January stemming from the tapering of the Federal Reserve Board's quantitative easing program and concerns regarding economic instability in the emerging markets. In addition, the U.S. Department of Commerce reported that U.S. GDP contracted at an annualized rate of 2.9% over the first quarter of 2014 due to the dampening effects of severe winter weather on corporate spending and housing market activity, as well as by reduced export activity and slowing inventory accumulation by businesses.

However, stocks subsequently rebounded, with the S&P 500 Index climbing to a series of new highs through the end of June as investors responded positively to expectations that the Fed would keep short-term interest rates low. Policymakers reiterated their intention to maintain an accommodative monetary policy even as labor markets, manufacturing activity, and other economic indicators improved markedly in the spring.

While the market's 2014 gains can be seen as an extension of the 2013 rally, market sentiment shifted over the first half of the year when investors turned their attention toward well-established, large-cap stocks. This change was motivated, in part, by rising demand for large, dividend-paying stocks after yields of longer term U.S. Treasury securities moderated during the economic soft patch.

Security Selections Buoyed Fund Performance

The fund participated more than fully in the market's gains over the reporting period, supported by favorable security selections in the consumer discretionary sector. Most notably, the fund's position in lodging provider Marriott International, Class A advanced strongly when the company reported higher occupancy rates and better-than-expected revenues and earnings. In the energy sector, overweighted exposure to ConocoPhillips bolstered relative results when oil prices moved higher amid intensifying global energy demand and geopolitical turmoil in the Middle East. In addition, the fund did not hold ExxonMobil, which did not meet our social criteria and lagged sector averages. Among industrial companies, Southwest Airlines fared well in an improving business climate characterized by rising demand for limited passenger capacity. Southwest Airlines also is known as an industry leader in promoting socially responsible environmental and employee relations policies.

Disappointments during the reporting period included organic grocery chain Whole Foods Market, which lost value when management reduced its earnings forecast due to intensifying competitive pressures and weaker-than-expected same-store sales growth. The fund also suffered shortfalls in the utilities sector.

From a social responsibility standpoint, it is worth noting that the fund eliminated its position in financial holding company BB&T when employee dissatisfaction and turnover increased following a recent acquisition and restructuring.

Maintaining a Disciplined Investment Approach

While our investment process considers potential investments one company at a time, we nonetheless have been encouraged by the shift in market leadership toward companies with strong revenue growth, good earnings quality, sound business fundamentals, and attractive valuations. We have identified an ample number of companies meeting our investment and social criteria in the information technology sector. We also have found more energy companies with attractive valuations and environmentally sensitive operations, leading us to increase the fund's energy holdings.

July 16, 2014

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, 2014 to June 30, 2014. 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, 2014

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.45	$ 5.74
Ending value (after expenses)	$1,085.60	$1,084.20

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

Using the SEC's method to compare expenses

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

Expenses and Value of a $1,000 Investment
assuming a hypothetical 5% annualized return for the six months ended June 30, 2014

	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, 2014 (Unaudited)

Common Stocks–99.3%	Shares		Value ($)
Banks–2.3%			
Comerica	95,700		4,800,312
KeyCorp	76,050		1,089,796
Regions Financial	50,100		532,062
			6,422,170
Capital Goods–9.0%			
3M	17,150		2,456,566
Caterpillar	13,300		1,445,311
Fluor	40,650		3,125,985
General Electric	76,250		2,003,850
Ingersoll-Rand	21,600		1,350,216
Jacobs Engineering Group	21,250	a	1,132,200
Lockheed Martin	16,850		2,708,301
Masco	116,950		2,596,290
NOW	8,762	a	317,272
Parker Hannifin	29,600		3,721,608
Precision Castparts	5,350		1,350,340
Snap-on	27,950		3,312,634
			25,520,573
Consumer Durables & Apparel–.8%			
Hasbro	18,250		968,163
Michael Kors Holdings	15,900	a	1,409,535
			2,377,698
Consumer Services–2.3%			
Marriott International, Cl. A	103,550		**6,637,555**
Diversified Financials–4.3%			
American Express	60,250		5,715,918
State Street	18,100		1,217,406
T. Rowe Price Group	30,850		2,604,049
Waddell & Reed Financial, Cl. A	43,000		2,691,370
			12,228,743

Common Stocks (continued)	Shares	Value ($)
Energy—13.2%		
Baker Hughes	41,700	3,104,565
ConocoPhillips	68,750	5,893,937
Denbury Resources	186,050	3,434,483
Devon Energy	44,800	3,557,120
EOG Resources	13,850	1,618,511
EQT	15,400	1,646,260
Hess	37,650	3,723,209
Marathon Petroleum	32,450	2,533,371
National Oilwell Varco	35,050	2,886,367
Phillips 66	20,350	1,636,750
Pioneer Natural Resources	7,290	1,675,315
Schlumberger	13,600	1,604,120
Spectra Energy	94,450	4,012,236
		37,326,244
Food & Staples Retailing—1.2%		
Kroger	15,050	743,922
Whole Foods Market	65,200	2,518,676
		3,262,598
Food, Beverage & Tobacco—4.1%		
Coca-Cola Enterprises	79,050	3,777,009
Hershey	42,150	4,104,145
Mondelez International, Cl. A	39,200	1,474,312
PepsiCo	24,400	2,179,896
		11,535,362
Health Care Equipment & Services—3.7%		
AmerisourceBergen	46,700	3,393,222
Becton Dickinson & Co.	26,925	3,185,227
Cigna	15,500	1,425,535
Patterson	59,400	2,346,894
		10,350,878
Household & Personal Products—.8%		
Clorox	14,750	1,348,150
Procter & Gamble	12,125	952,904
		2,301,054

Common Stocks (continued)	Shares		Value ($)
Insurance—1.9%			
Marsh & McLennan	45,400		2,352,628
Principal Financial Group	30,000		1,514,400
Travelers	15,900		1,495,713
			5,362,741
Materials—7.2%			
Alcoa	122,250		1,820,302
Avery Dennison	55,550		2,846,937
Ball	79,750		4,998,730
Dow Chemical	27,500		1,415,150
Ecolab	12,350		1,375,049
International Flavors & Fragrances	46,000		4,796,880
Sigma-Aldrich	29,450		2,988,586
			20,241,634
Media—3.8%			
Discovery Communications, Cl. A	14,800	a	1,099,344
Scripps Networks Interactive, Cl. A	51,600		4,186,824
Time	2,437	a	59,024
Time Warner	19,500		1,369,875
Time Warner Cable	17,550		2,585,115
Walt Disney	16,500		1,414,710
			10,714,892
Pharmaceuticals, Biotech & Life Sciences—9.0%			
Agilent Technologies	84,750		4,868,040
Allergan	11,350		1,920,647
AstraZeneca, ADR	27,950		2,076,964
Biogen Idec	9,450	a	2,979,680
Bristol-Myers Squibb	14,400		698,544
Eli Lilly & Co.	42,800		2,660,876
Gilead Sciences	36,350	a	3,013,779
Merck & Co.	53,300		3,083,405
Novartis, ADR	6,450		583,918
Waters	34,750	a	3,629,290
			25,515,143

Common Stocks (continued)	Shares		Value ($)
Retailing—3.0%			
Bed Bath & Beyond	11,850	[a]	679,953
Gap	126,800		5,271,076
O'Reilly Automotive	1,900	[a]	286,140
PetSmart	17,300	[b]	1,034,540
The TJX Companies	23,100		1,227,765
			8,499,474
Semiconductors & Semiconductor Equipment—3.8%			
Applied Materials	291,700		6,577,835
Intel	75,500		2,332,950
Lam Research	25,000		1,689,500
			10,600,285
Software & Services—12.0%			
Accenture, Cl. A	18,450		1,491,498
CA	111,550		3,205,947
Google, Cl. A	1,240	[a]	724,991
Google, Cl. C	1,240	[a]	713,347
International Business Machines	27,825		5,043,838
Intuit	47,650		3,837,255
Microsoft	185,850		7,749,945
Oracle	113,325		4,593,062
Symantec	104,550		2,394,195
Teradata	33,600	[a]	1,350,720
Xerox	234,000		2,910,960
			34,015,758
Technology Hardware & Equipment—12.4%			
Apple	100,800		9,367,344
Cisco Systems	192,775		4,790,459

Common Stocks (continued)	Shares	Value ($)
Technology Hardware & Equipment (continued)		
EMC	148,825	3,920,051
Hewlett-Packard	100,100	3,371,368
Jabil Circuit	177,450	3,708,705
Motorola Solutions	54,300	3,614,751
QUALCOMM	35,550	2,815,560
Seagate Technology	30,000	1,704,600
TE Connectivity	26,150	1,617,116
		34,909,954
Telecommunication Services—1.4%		
AT&T	34,350	1,214,616
Verizon Communications	55,900	2,735,187
		3,949,803
Transportation—2.7%		
Norfolk Southern	17,450	1,797,873
Southwest Airlines	159,600	4,286,856
Union Pacific	16,200	1,615,950
		7,700,679
Utilities—.4%		
Pinnacle West Capital	19,050	**1,101,852**
Total Common Stocks (cost $203,106,937)		**280,575,090**

Other Investment—.7%		
Registered Investment Company;		
Dreyfus Institutional Preferred Plus Money Market Fund (cost $2,066,161)	2,066,161 [c]	**2,066,161**

Investment of Cash Collateral for Securities Loaned–.4%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Fund (cost $1,066,156)	1,066,156 [c]	**1,066,156**
Total Investments (cost $206,239,254)	**100.4%**	**283,707,407**
Liabilities, Less Cash and Receivables	**(.4%)**	**(1,186,787)**
Net Assets	**100.0%**	**282,520,620**

ADR—American Depository Receipts

[a] *Non-income producing security.*

[b] *Security, or portion thereof, on loan. At June 30, 2014, the value of the fund's securities on loan was $1,024,195 and the value of the collateral held by the fund was $1,066,156.*

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

Portfolio Summary (Unaudited)†

	Value (%)		Value (%)
Energy	13.2	Retailing	3.0
Technology Hardware & Equipment	12.4	Transportation	2.7
Software & Services	12.0	Banks	2.3
Capital Goods	9.0	Consumer Services	2.3
Pharmaceuticals, Biotech & Life Sciences	9.0	Insurance	1.9
Materials	7.2	Telecommunication Services	1.4
Diversified Financials	4.3	Food & Staples Retailing	1.2
Food, Beverage & Tobacco	4.1	Money Market Investments	1.1
Media	3.8	Consumer Durables & Apparel	.8
Semiconductors & Semiconductor Equipment	3.8	Household & Personal Products	.8
Health Care Equipment & Services	3.7	Utilities	.4
			100.4

† *Based on net assets.*

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2014 (Unaudited)

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments (including securities on loan, valued at $1,024,195)—Note 1(b):		
Unaffiliated issuers	203,106,937	280,575,090
Affiliated issuers	3,132,317	3,132,317
Cash		52,519
Dividends and securities lending income receivable		216,654
Prepaid expenses		2,858
		283,979,438
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(c)		187,002
Liability for securities on loan—Note 1(b)		1,066,156
Payable for shares of Common Stock redeemed		143,905
Accrued expenses		61,755
		1,458,818
Net Assets ($)		**282,520,620**
Composition of Net Assets ($):		
Paid-in capital		187,843,946
Accumulated undistributed investment income—net		1,417,064
Accumulated net realized gain (loss) on investments		15,791,457
Accumulated net unrealized appreciation (depreciation) on investments		77,468,153
Net Assets ($)		**282,520,620**

Net Asset Value Per Share

	Initial Shares	Service Shares
Net Assets ($)	272,575,872	9,944,748
Shares Outstanding	6,196,808	227,691
Net Asset Value Per Share ($)	**43.99**	**43.68**

See notes to financial statements.

STATEMENT OF OPERATIONS

Six Months Ended June 30, 2014 (Unaudited)

Investment Income ($):	
Income:	
Cash dividends (net of $9,563 foreign taxes withheld at source):	
Unaffiliated issuers	2,591,592
Affiliated issuers	792
Income from securities lending—Note 1(b)	1,068
Total Income	**2,593,452**
Expenses:	
Management fee—Note 3(a)	1,013,288
Professional fees	57,582
Directors' fees and expenses—Note 3(d)	45,699
Prospectus and shareholders' reports	26,317
Custodian fees—Note 3(c)	14,591
Distribution fees—Note 3(b)	11,378
Loan commitment fees—Note 2	788
Shareholder servicing costs—Note 3(c)	621
Miscellaneous	4,825
Total Expenses	**1,175,089**
Less—reduction in fees due to earnings credits—Note 3(c)	(4)
Net Expenses	**1,175,085**
Investment Income—Net	**1,418,367**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	15,815,126
Net unrealized appreciation (depreciation) on investments	5,237,320
Net Realized and Unrealized Gain (Loss) on Investments	**21,052,446**
Net Increase in Net Assets Resulting from Operations	**22,470,813**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended June 30, 2014 (Unaudited)	Year Ended December 31, 2013
Operations ($):		
Investment income—net	1,418,367	2,904,763
Net realized gain (loss) on investments	15,815,126	24,857,613
Net unrealized appreciation (depreciation) on investments	5,237,320	43,580,868
Net Increase (Decrease) in Net Assets Resulting from Operations	**22,470,813**	**71,343,244**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(2,824,636)	(2,903,989)
Service Shares	(79,619)	(77,437)
Net realized gain on investments:		
Initial Shares	(18,473,730)	–
Service Shares	(647,248)	–
Total Dividends	**(22,025,233)**	**(2,981,426)**
Capital Stock Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	8,844,022	23,366,293
Service Shares	830,221	1,246,467
Dividends reinvested:		
Initial Shares	21,298,366	2,903,989
Service Shares	726,867	77,437
Cost of shares redeemed:		
Initial Shares	(22,691,706)	(35,165,859)
Service Shares	(412,739)	(1,245,153)
Increase (Decrease) in Net Assets from Capital Stock Transactions	**8,595,031**	**(8,816,826)**
Total Increase (Decrease) in Net Assets	**9,040,611**	**59,544,992**
Net Assets ($):		
Beginning of Period	273,480,009	213,935,017
End of Period	**282,520,620**	**273,480,009**
Undistributed investment income—net	1,417,064	2,902,952

	Six Months Ended June 30, 2014 (Unaudited)	Year Ended December 31, 2013
Capital Share Transactions:		
Initial Shares		
Shares sold	206,015	593,292
Shares issued for dividends reinvested	514,577	79,846
Shares redeemed	(528,105)	(906,877)
Net Increase (Decrease) in Shares Outstanding	**192,487**	**(233,739)**
Service Shares		
Shares sold	19,409	31,743
Shares issued for dividends reinvested	17,672	2,140
Shares redeemed	(9,721)	(32,040)
Net Increase (Decrease) in Shares Outstanding	**27,360**	**1,843**

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, 2014 (Unaudited)	Year Ended December 31, 2013	2012	2011	2010	2009
Per Share Data ($):						
Net asset value, beginning of period	44.09	33.24	29.91	29.90	26.26	19.86
Investment Operations:						
Investment income—net [a]	.23	.46	.44	.24	.25	.21
Net realized and unrealized gain (loss) on investments	3.31	10.87	3.15	.04	3.62	6.40
Total from Investment Operations	3.54	11.33	3.59	.28	3.87	6.61
Distributions:						
Dividends from investment income—net	(.48)	(.48)	(.26)	(.27)	(.23)	(.21)
Dividends from net realized gain on investments	(3.16)	–	–	–	–	–
Total Distributions	(3.64)	(.48)	(.26)	(.27)	(.23)	(.21)
Net asset value, end of period	43.99	44.09	33.24	29.91	29.90	26.26
Total Return (%)	8.56[b]	34.34	11.98	.90	14.82	33.75
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	.86[c]	.86	.85	.85	.89	.89
Ratio of net expenses to average net assets	.86[c]	.86	.85	.85	.89	.89
Ratio of net investment income to average net assets	1.06[c]	1.19	1.34	.80	.93	.97
Portfolio Turnover Rate	15.10[b]	38.81	48.84	67.88	32.75	34.00
Net Assets, end of period ($ x 1,000)	272,576	264,713	207,383	208,013	227,893	222,600

[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, 2014 (Unaudited)	Year Ended December 31, 2013	2012	2011	2010	2009
Per Share Data ($):						
Net asset value, beginning of period	43.76	33.01	29.70	29.71	26.10	19.71
Investment Operations:						
Investment income—net[a]	.17	.36	.36	.17	.18	.16
Net realized and unrealized gain (loss) on investments	3.30	10.78	3.13	.02	3.60	6.37
Total from Investment Operations	3.47	11.14	3.49	.19	3.78	6.53
Distributions:						
Dividends from investment income—net	(.39)	(.39)	(.18)	(.20)	(.17)	(.14)
Dividends from net realized gain on investments	(3.16)	–	–	–	–	–
Total Distributions	(3.55)	(.39)	(.18)	(.20)	(.17)	(.14)
Net asset value, end of period	43.68	43.76	33.01	29.70	29.71	26.10
Total Return (%)	8.42[b]	33.99	11.70	.65	14.54	33.44
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	1.11[c]	1.11	1.10	1.10	1.14	1.14
Ratio of net expenses to average net assets	1.11[c]	1.11	1.10	1.10	1.14	1.14
Ratio of net investment income to average net assets	.80[c]	.93	1.09	.55	.68	.72
Portfolio Turnover Rate	15.10[b]	38.81	48.84	67.88	32.75	34.00
Net Assets, end of period ($ x 1,000)	9,945	8,767	6,552	6,167	6,494	6,070

[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 150 million shares of $.001 par value Common Stock in each of the following classes of shares: Initial and Service. 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 generally 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 generally categorized within Level 3 of the fair value hierarchy.

The following is a summary of the inputs used as of June 30, 2014 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†	276,504,673	–	–	**276,504,673**
Equity Securities– Foreign Common Stocks†	4,070,417	–	–	**4,070,417**
Mutual Funds	3,132,317	–	–	**3,132,317**

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

At June 30, 2014, 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 or 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, 2014, The Bank of New York Mellon earned $329 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, 2014, were as follows:

Affiliated Investment Company	Value 12/31/2013 ($)	Purchases ($)	Sales ($)	Value 6/30/2014 ($)	Net Assets (%)
Dreyfus Institutional Preferred Plus Money Market Fund	2,281,098	17,700,307	17,915,244	2,066,161	.7
Dreyfus Institutional Cash Advantage Fund	–	6,139,887	5,073,731	1,066,156	.4
Total	**2,281,098**	**23,840,194**	**22,988,975**	**3,132,317**	**1.1**

(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, 2014, 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 ended June 30, 2014, the fund did not incur any interest or penalties.

Each tax year in the three-year period ended December 31, 2013 remains subject to examination by the Internal Revenue Service and state taxing authorities.

The tax character of distributions paid to shareholders during the fiscal year ended December 31, 2013 was as follows: ordinary income $2,981,426.

NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in a $265 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, 2014, 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, 2014, Service shares were charged $11,378 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 the Initial shares 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 and cash management services for the fund. The majority of transfer agency fees are comprised of amounts paid on a per account basis, while cash management fees are related to fund subscriptions and redemptions. During the period ended June 30, 2014, the fund was charged $490 for transfer agency services and $52 for cash management services. These fees are included in Shareholder servicing costs in the Statement of Operations. Cash management fees were partially offset by earnings credits of $4.

The fund compensates The Bank of New York Mellon under a custody agreement for providing custodial services for the fund. These fees are determined based on net assets, geographic region and transaction activity. During the period ended June 30, 2014, the fund was charged $14,591 pursuant to the custody agreement.

During the period ended June 30, 2014, the fund was charged $4,593 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 $173,525, Distribution Plan fees $2,021, Shareholder Services Plan fees $907, custodian fees $8,000, Chief Compliance Officer fees $2,209 and transfer agency fees $340.

(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, 2014, amounted to $41,016,773 and $52,764,189, respectively.

At June 30, 2014, accumulated net unrealized appreciation on investments was $77,468,153, consisting of $78,010,420 gross unrealized appreciation and $542,267 gross unrealized depreciation.

At June 30, 2014, 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.

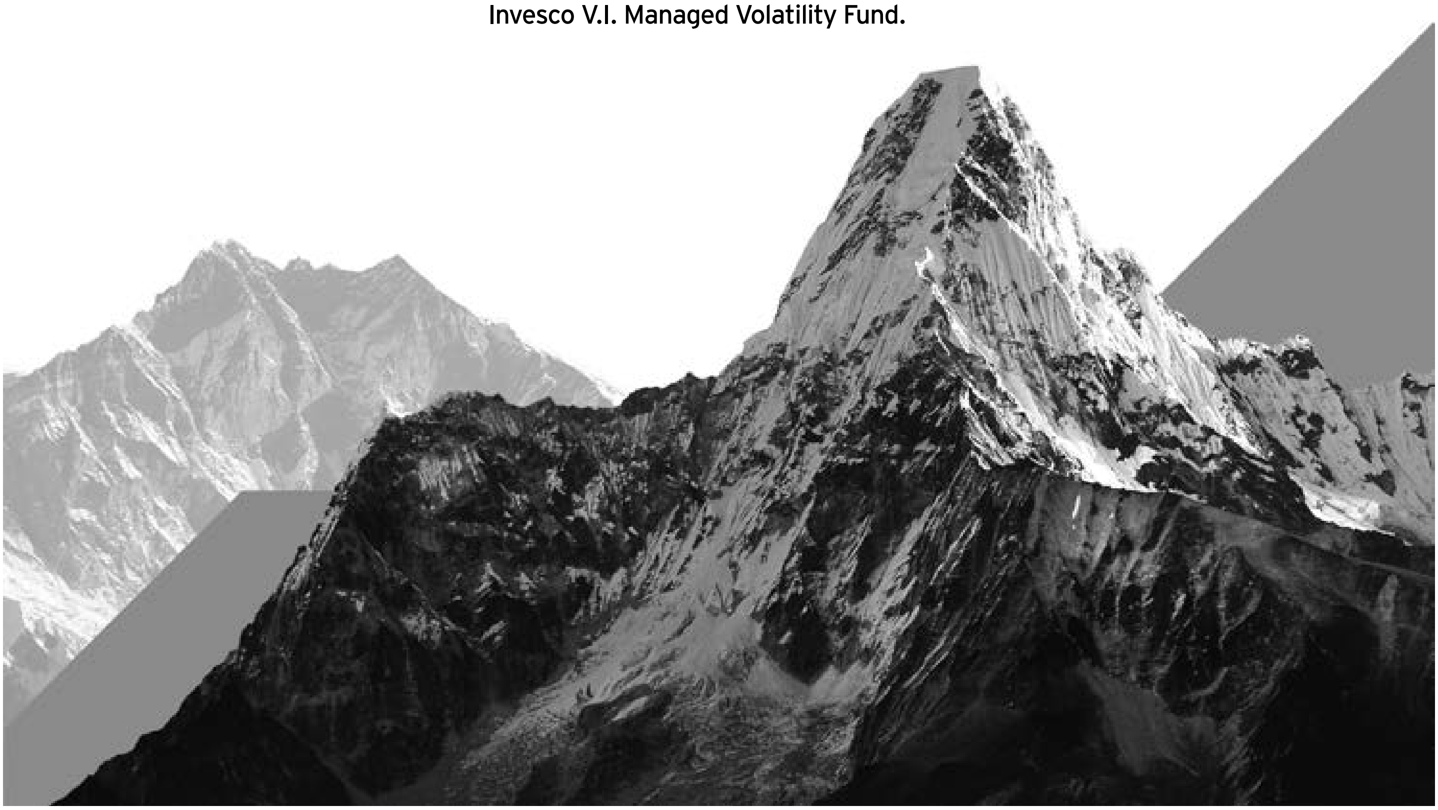
Printed on recycled paper.
50% post-consumer.
Process chlorine free.
Vegetable-based ink.

Printed in U.S.A.

0111SA0614

Invesco V.I. Managed Volatility Fund

Effective April 30, 2014, Invesco V.I. Utilities Fund was renamed Invesco V.I. Managed Volatility 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-VIMGV-SAR-1

Fund Performance

Performance summary

Fund vs. Indexes

Cumulative total returns, 12/31/13 to 6/30/14, excluding variable product issuer charges. If variable product issuer charges were included, returns would be lower.

Series I Shares	17.67%
Series II Shares	17.49
Russell 1000 Value Index▼ (Broad Market Index)*	8.28
S&P 500 Index▼ (Former Broad Market Index)*	7.14
Barclays U.S. Government/Credit Index▼ (Style-Specific Index)**	3.94
S&P 500 Utilities Index▼ (Former Style-Specific Index)**	18.65
Lipper VUF Equity Income Funds Index■ (Peer Group Index)***	7.57
Lipper VUF Utility Funds Classification Average■ (Former Peer Group)***	17.20

Source(s): ▼FactSet Research Systems Inc.; ■Lipper Inc.

*The Fund has elected to use the Russell 1000 Value Index to represent its broad market benchmark rather than the S&P 500 Index because the Russell 1000 Value Index more closely reflects the performance of the types of securities in which the Fund invests.

**The Fund has elected to use the Barclays U.S. Government/Credit Index to represent its style-specific benchmark rather than the S&P 500 Utilities Index because the Barclays U.S. Government/Credit Index more closely reflects the performance of the types of securities in which the Fund invests.

***The Fund has elected to use the Lipper VUF Equity Income Funds Index to represent its peer group benchmark rather than the Lipper VUF Utility Funds Classification Average because the Lipper VUF Equity Income Funds Index more closely reflects the performance of the types of securities in which the Fund invests.

The **Russell 1000 Value Index** is an unmanaged index considered representative of large-cap value stocks. The Russell 1000 Value Index is a trademark/service mark of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co.

The **S&P 500® Index** is an unmanaged index considered representative of the US stock market.

The **Barclays U.S. Government/Credit Index** includes treasuries and agencies that represent the government portion of the index, and includes publicly issued US corporate and foreign debentures and secured notes that meet specified maturity, liquidity and quality requirements.

The **S&P 500® Utilities Index** is an unmanaged index considered representative of the utilities market.

The **Lipper VUF Equity Income Funds Index** is an unmanaged index considered representative of equity income variable insurance underlying funds tracked by Lipper.

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.

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 net 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.[1,2] 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 1.09% and 1.34%, 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. Managed Volatility 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.

Average Annual Total Returns

As of 6/30/14

Series I Shares	
Inception (12/30/94)	7.76%
10 Years	10.71
5 Years	13.90
1 Year	20.44
Series II Shares	
Inception (4/30/04)	10.53%
10 Years	10.43
5 Years	13.60
1 Year	20.14

1 Total annual Fund operating expenses after any contractual fee waivers and/or expense reimbursements by the adviser in effect through at least April 30, 2015. See current prospectus for more information.

2 Total annual Fund operating expenses after any contractual fee waivers by the adviser in effect through at least June 30, 2016. See current prospectus for more information.

Schedule of Investments[a]

June 30, 2014
(Unaudited)

	Shares	Value
Common Stocks & Other Equity Interests–64.48%		
Aerospace & Defense–0.72%		
General Dynamics Corp.	4,582	$ 534,032
Agricultural Products–0.65%		
Archer-Daniels-Midland Co.	10,943	482,696
Apparel Retail–0.77%		
Abercrombie & Fitch Co.–Class A	13,300	575,225
Application Software–1.70%		
Adobe Systems Inc.[b]	12,869	931,201
Citrix Systems, Inc.[b]	5,326	333,141
		1,264,342
Asset Management & Custody Banks–1.39%		
Northern Trust Corp.	7,497	481,382
State Street Corp.	8,280	556,913
		1,038,295
Automobile Manufacturers–0.89%		
General Motors Co.	18,330	665,379
Biotechnology–0.70%		
Amgen Inc.	4,434	524,853
Cable & Satellite–2.14%		
Comcast Corp.–Class A	14,793	794,088
Time Warner Cable Inc.	5,429	799,692
		1,593,780
Construction Machinery & Heavy Trucks–1.05%		
Caterpillar Inc.	7,177	779,925
Diversified Banks–5.05%		
Bank of America Corp.	36,755	564,924
Comerica Inc.	9,777	490,414
JPMorgan Chase & Co.	36,093	2,079,679
Wells Fargo & Co.	11,894	625,149
		3,760,166
Diversified Chemicals–0.81%		
Dow Chemical Co. (The)	11,727	603,471
Diversified Metals & Mining–0.61%		
Freeport-McMoRan Copper & Gold Inc.	12,415	453,147
Electric Utilities–0.92%		
Edison International	4,357	253,185
Pinnacle West Capital Corp.	7,451	430,966
		684,151
Electronic Components–0.86%		
Corning Inc.	29,038	637,384
Health Care Equipment–0.55%		
Medtronic, Inc.	6,382	406,916

	Shares	Value
Hotels, Resorts & Cruise Lines–0.90%		
Carnival Corp.	17,800	$ 670,170
Household Products–0.61%		
Procter & Gamble Co. (The)	5,820	457,394
Industrial Conglomerates–1.67%		
General Electric Co.	47,426	1,246,355
Industrial Machinery–0.83%		
Ingersoll-Rand PLC	9,900	618,849
Insurance Brokers–2.16%		
Aon PLC	5,111	460,450
Marsh & McLennan Cos., Inc.	15,405	798,287
Willis Group Holdings PLC	8,156	353,155
		1,611,892
Integrated Oil & Gas–4.38%		
Exxon Mobil Corp.	4,929	496,252
Occidental Petroleum Corp.	5,598	574,523
Royal Dutch Shell PLC–Class A (United Kingdom)	32,200	1,332,842
Total S.A. (France)	11,928	862,056
		3,265,673
Integrated Telecommunication Services–1.10%		
Koninklijke (Royal) KPN N.V. (Netherlands)[b]	19,952	72,699
Orange S.A. (France)	5,969	94,070
Telecom Italia S.p.A. (Italy)[b]	55,832	70,717
Telefonica S.A. (Spain)	5,516	94,564
Verizon Communications Inc.	9,924	485,581
		817,631
Internet Software & Services–1.21%		
eBay Inc.[b]	18,018	901,981
Investment Banking & Brokerage–3.07%		
Charles Schwab Corp. (The)	27,780	748,115
Goldman Sachs Group, Inc. (The)	2,926	489,929
Morgan Stanley	32,511	1,051,081
		2,289,125
IT Consulting & Other Services–0.78%		
Amdocs Ltd.	12,568	582,275
Managed Health Care–2.04%		
Cigna Corp.	4,520	415,705
UnitedHealth Group Inc.	5,907	482,897
WellPoint, Inc.	5,805	624,676
		1,523,278
Movies & Entertainment–1.65%		
Time Warner Inc.	4,098	287,885
Viacom Inc.–Class B	10,822	938,592
		1,226,477

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Shares	Value
Multi-Utilities-0.47%		
PG&E Corp.	7,251	$ 348,193
Oil & Gas Equipment & Services-1.08%		
Baker Hughes Inc.	10,783	802,794
Oil & Gas Exploration & Production-2.49%		
Anadarko Petroleum Corp.	4,955	542,424
Apache Corp.	5,977	601,406
Canadian Natural Resources Ltd. (Canada)	15,466	710,682
		1,854,512
Other Diversified Financial Services-3.18%		
Citigroup Inc.	40,488	1,906,985
Voya Financial, Inc.	12,651	459,737
		2,366,722
Packaged Foods & Meats-1.31%		
Mondelez International Inc.-Class A	16,676	627,185
Unilever N.V.-New York Shares (Netherlands)	8,007	350,386
		977,571
Personal Products-1.13%		
Avon Products, Inc.	57,841	845,057
Pharmaceuticals-5.21%		
Bristol-Myers Squibb Co.	5,357	259,868
Eli Lilly and Co.	10,063	625,617
Hospira, Inc.[b]	1,836	94,315
Merck & Co., Inc.	13,644	789,306
Novartis AG (Switzerland)	7,865	712,178
Pfizer Inc.	12,352	366,607
Sanofi (France)	3,831	407,477
Teva Pharmaceutical Industries Ltd.-ADR (Israel)	11,989	628,463
		3,883,831
Property & Casualty Insurance-0.04%		
Chubb Corp. (The)	283	26,084
Publishing-0.54%		
Thomson Reuters Corp.	11,038	401,905
Railroads-0.70%		
CSX Corp.	16,934	521,737
Regional Banks-2.37%		
BB&T Corp.	11,352	447,609
Fifth Third Bancorp	20,298	433,362
PNC Financial Services Group, Inc. (The)	9,950	886,048
		1,767,019
Security & Alarm Services-1.16%		
Tyco International Ltd.	19,000	866,400
Semiconductor Equipment-1.38%		
Applied Materials, Inc.	45,513	1,026,318

	Shares	Value
Semiconductors-1.31%		
Broadcom Corp.-Class A	11,287	$ 418,973
Intel Corp.	4,193	129,564
Texas Instruments Inc.	8,915	426,048
		974,585
Specialized Finance-0.51%		
CME Group Inc.-Class A	5,388	382,279
Specialty Chemicals-0.32%		
PPG Industries, Inc.	1,144	240,412
Systems Software-1.56%		
Microsoft Corp.	13,102	546,354
Symantec Corp.	26,898	615,964
		1,162,318
Wireless Telecommunication Services-0.51%		
Vodafone Group PLC-ADR (United Kingdom)	11,381	380,012
Total Common Stocks & Other Equity Interests (Cost $45,666,929)		48,042,611

	Principal Amount	Value
Bonds and Notes-16.02%		
Aerospace & Defense-0.20%		
L-3 Communications Corp., Sr. Unsec. Gtd. Global Notes, 3.95%, 05/28/24	$ 150,000	151,490
Air Freight & Logistics-0.25%		
UTi Worldwide Inc., Sr. Unsec. Conv. Notes, 4.50%, 03/01/19[c]	174,000	185,963
Application Software-0.38%		
Citrix Systems Inc., Sr. Unsec. Conv. Notes, 0.50%, 04/15/19[c]	268,000	284,080
Asset Management & Custody Banks-0.48%		
Apollo Management Holdings L.P., Sr. Unsec. Gtd. Notes, 4.00%, 05/30/24[c]	40,000	40,233
Blackstone Holdings Finance Co. LLC, Sr. Unsec. Gtd. Notes, 5.00%, 06/15/44[c]	150,000	155,536
KKR Group Finance Co III LLC, Sr. Unsec. Gtd. Bonds, 5.13%, 06/01/44[c]	160,000	162,680
		358,449
Biotechnology-0.44%		
Celgene Corp., Sr. Unsec. Global Notes, 4.63%, 05/15/44	100,000	100,627
Cubist Pharmaceuticals Inc., Sr. Unsec. Conv. Bonds, 1.88%, 09/01/20[c]	124,000	141,670
Sr. Unsec. Conv. Notes, 1.13%, 09/01/18[c]	75,000	84,563
		326,860
Broadcasting-0.68%		
Grupo Televisa S.A.B. (Mexico), Sr. Unsec. Global Notes, 5.00%, 05/13/45	200,000	198,902

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Principal Amount	Value
Broadcasting-(continued)		
Liberty Media Corp., Sr. Unsec. Conv. Notes, 1.38%, 10/15/23[(c)]	$ 299,000	$ 303,859
		502,761
Cable & Satellite-0.72%		
COX Communications Inc., Sr. Unsec. Notes, 8.38%, 03/01/39[(c)]	150,000	211,307
DIRECTV Holdings LLC/DIRECTV Financing Co., Inc., Sr. Unsec. Gtd. Global Notes, 5.15%, 03/15/42	150,000	158,084
Time Warner Cable, Inc., Sr. Unsec. Gtd. Notes, 5.00%, 02/01/20	150,000	168,467
		537,858
Casinos & Gaming-0.35%		
MGM Resorts International, Sr. Unsec. Gtd. Conv. Notes, 4.25%, 04/15/15	178,000	261,771
Catalog Retail-0.16%		
Liberty Interactive LLC, Sr. Unsec. Conv. Global Bonds, 0.75%, 03/30/23[(d)]	88,000	118,360
Communications Equipment-0.49%		
Ciena Corp., Sr. Unsec. Conv. Notes, 4.00%, 12/15/20[(c)]	160,000	222,500
JDS Uniphase Corp., Sr. Unsec. Conv. Bond., 0.63%, 08/15/18[(c)(d)]	138,000	138,690
		361,190
Construction Machinery & Heavy Trucks-0.08%		
Greenbrier Cos., Inc. (The), Sr. Unsec. Conv. Notes, 3.50%, 04/01/18	34,000	57,163
Construction Materials-0.63%		
Cemex S.A.B. de C.V. (Mexico), Unsec. Sub. Conv. Notes, 4.88%, 03/15/15	372,000	466,627
Diversified Banks-0.81%		
Banco Inbursa S.A. Institucion de Banca Multiple (Mexico), Sr. Unsec. Notes, 4.13%, 06/06/24[(c)]	150,000	147,915
JPMorgan Chase & Co., Series V, Jr. Unsec. Sub. Global Notes, 5.00%[(e)]	150,000	149,813
Mizuho Financial Group Cayman 3 Ltd. (Japan), Unsec. Gtd. Sub. Notes, 4.60%, 03/27/24[(c)]	200,000	210,918
Wells Fargo & Co., Unsec. Sub. Medium-Term Notes, 4.10%, 06/03/26	95,000	96,177
		604,823
Fertilizers & Agricultural Chemicals-0.03%		
Monsanto Co., Sr. Unsec. Global Notes, 2.13%, 07/15/19	15,000	15,051
3.38%, 07/15/24	10,000	10,082
		25,133
Health Care Distributors-0.07%		
AmerisourceBergen Corp., Sr. Unsec. Bonds, 3.40%, 05/15/24	50,000	49,799

	Principal Amount	Value
Health Care Equipment-0.89%		
CareFusion Corp., Sr. Unsec. Global Notes, 3.88%, 05/15/24	$ 165,000	$ 166,845
4.88%, 05/15/44	170,000	171,845
NuVasive Inc., Sr. Unsec. Conv. Notes, 2.75%, 07/01/17	94,000	107,982
Volcano Corp., Sr. Unsec. Conv. Notes, 1.75%, 12/01/17	224,000	217,420
		664,092
Health Care Facilities-0.67%		
Brookdale Senior Living Inc., Sr. Unsec. Conv. Notes, 2.75%, 06/15/18	174,000	237,619
HealthSouth Corp., Sr. Unsec. Sub. Conv. Notes, 2.00%, 12/01/20[(d)]	235,000	258,647
		496,266
Health Care Services-0.88%		
Express Scripts Holding Co., Sr. Unsec. Gtd. Global Notes, 2.25%, 06/15/19	50,000	49,899
Omnicare, Inc., Sr. Unsec. Gtd. Sub. Conv. Notes, 3.50%, 02/15/44	128,000	145,600
3.75%, 04/01/42	204,000	338,512
Series OCR, Sr. Unsec. Gtd. Conv. Deb., 3.25%, 12/15/15[(d)]	114,000	121,838
		655,849
Integrated Telecommunication Services-0.26%		
Telefonica Emisiones SAU (Spain), Sr. Unsec. Gtd. Global Notes, 7.05%, 06/20/36	150,000	190,025
Investment Banking & Brokerage-0.06%		
Jefferies Group LLC, Sr. Unsec. Conv. Deb., 3.88%, 11/01/17[(d)]	39,000	41,852
Managed Health Care-0.58%		
Wellpoint Inc., Sr. Unsec. Conv. Bond, 2.75%, 10/15/42	281,000	431,862
Movies & Entertainment-0.04%		
Live Nation Entertainment, Inc., Sr. Unsec. Conv. Notes, 2.50%, 05/15/19[(c)]	26,000	27,138
Multi-Line Insurance-0.26%		
American Financial Group, Inc., Sr. Unsec. Notes, 9.88%, 06/15/19	150,000	195,630
Multi-Utilities-0.27%		
Enable Midstream Partners L.P., Sr. Unsec. Gtd. Notes, 2.40%, 05/15/19[(c)]	200,000	200,426
Office REIT's-0.20%		
Highwoods Realty L.P., Sr. Unsec. Notes, 3.20%, 06/15/21	150,000	148,535
Oil & Gas Equipment & Services-0.15%		
Helix Energy Solutions Group, Inc., Sr. Unsec. Conv. Notes, 3.25%, 03/15/18[(d)]	84,000	113,610

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Principal Amount	Value
Oil & Gas Exploration & Production-0.65%		
Cobalt International Energy Inc., Sr. Unsec. Conv. Notes, 2.63%, 12/01/19	$ 287,000	$ 265,116
Stone Energy Corp., Sr. Unsec. Gtd. Conv. Notes, 1.75%, 03/01/17	174,000	221,089
		486,205
Other Diversified Financial Services-0.07%		
ERAC USA Finance LLC, Sr. Unsec. Gtd. Notes, 2.35%, 10/15/19[(c)]	50,000	49,927
Packaged Foods & Meats-0.27%		
Grupo Bimbo S.A.B. de C.V. (Mexico), Sr. Unsec. Notes, 3.88%, 06/27/24[(c)]	200,000	199,707
Pharmaceuticals-0.67%		
Actavis Funding SCS, Sr. Unsec. Gtd. Notes, 4.85%, 06/15/44[(c)]	150,000	151,068
Salix Pharmaceuticals Ltd., Sr. Unsec. Conv. Notes, 1.50%, 03/15/19	178,000	350,326
		501,394
Renewable Electricity-0.20%		
Oglethorpe Power Corp., Sr. Sec. First Mortgage Bonds, 4.55%, 06/01/44	150,000	152,069
Retail REIT's-0.20%		
Realty Income Corp., Sr. Unsec. Notes, 2.00%, 01/31/18	150,000	150,749
Semiconductor Equipment-0.66%		
Lam Research Corp., Series B, Sr. Unsec. Conv. Notes, 1.25%, 05/15/18	198,000	271,507
Novellus Systems Inc., Sr. Unsec. Gtd. Conv. Notes, 2.63%, 05/15/41	110,000	223,163
		494,670
Semiconductors-0.82%		
Micron Technology Inc., Series G, Sr. Unsec. Conv. Global Bonds, 3.00%, 11/15/28[(d)]	219,000	283,194
NVIDIA Corp., Sr. Unsec. Conv. Notes, 1.00%, 12/01/18[(c)]	297,000	329,299
		612,493
Specialized Finance-0.22%		
Moody's Corp., Sr. Unsec. Global Notes, 4.88%, 02/15/24	150,000	160,904
Specialized REIT's-0.22%		
Crown Castle Towers LLC, Sr. Sec. Gtd. Notes, 4.88%, 08/15/20[(c)]	150,000	167,460
Steel-0.28%		
United States Steel Corp., Sr. Unsec. Conv. Notes, 2.75%, 04/01/19	170,000	211,969
Systems Software-0.31%		
NetSuite Inc., Sr. Unsec. Conv. Notes, 0.25%, 06/01/18	162,000	166,961

	Principal Amount	Value
Systems Software-(continued)		
Oracle Corp., Sr. Unsec. Gtd. Global Notes, 4.30%, 07/08/34	$ 65,000	$ 64,974
		231,935
Technology Hardware, Storage & Peripherals-0.86%		
SanDisk Corp., Sr. Unsec. Conv. Notes, 0.50%, 10/15/20[(c)]	348,000	439,567
Seagate HDD Cayman, Sr. Unsec. Gtd. Bonds, 4.75%, 01/01/25[(c)]	200,000	198,750
		638,317
Thrifts & Mortgage Finance-0.56%		
MGIC Investment Corp., Sr. Unsec. Conv. Notes, 2.00%, 04/01/20	46,000	68,712
5.00%, 05/01/17	170,000	198,900
Radian Group Inc., Sr. Unsec. Conv. Notes, 2.25%, 03/01/19	30,000	45,113
3.00%, 11/15/17	72,000	104,490
		417,215
Total Bonds and Notes (Cost $11,607,750)		11,932,626
U.S. Treasury Securities-9.44%		
U.S. Treasury Notes-8.46%		
0.50%, 06/30/16	3,000,000	3,002,567
1.63%, 06/30/19	3,191,000	3,190,883
2.50%, 05/15/24	115,000	114,792
		6,308,242
U.S. Treasury Bonds-0.98%		
4.50%, 02/15/36	600,000	727,632
Total U.S. Treasury Securities (Cost $7,019,026)		7,035,874
	Shares	
Preferred Stocks-0.16%		
Asset Management & Custody Banks-0.16%		
AMG Capital Trust II, $2.58 Jr. Gtd. Sub. Conv. Pfd. (Cost $118,793)	1,900	119,819
Money Market Funds-9.94%		
Liquid Assets Portfolio-Institutional Class[(f)]	3,702,803	3,702,803
Premier Portfolio-Institutional Class[(f)]	3,702,804	3,702,804
Total Money Market Funds (Cost $7,405,607)		7,405,607
TOTAL INVESTMENTS-100.04% (Cost $71,818,105)		74,536,537
OTHER ASSETS LESS LIABILITIES-(0.04)%		(26,565)
NET ASSETS-100.00%		$74,509,972

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

Investment Abbreviations:

ADR	– American Depositary Receipt
Conv.	– Convertible
Deb.	– Debentures
Gtd.	– Guaranteed
Jr.	– Junior
Pfd.	– Preferred
REIT	– Real Estate Investment Trust
Sec.	– Secured
Sr.	– Senior
Sub.	– Subordinated
Unsec.	– Unsecured

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) Security purchased or received in a transaction exempt from registration under the Securities Act of 1933, as amended (the "1933 Act"). The security may be resold pursuant to an exemption from registration under the 1933 Act, typically to qualified institutional buyers. The aggregate value of these securities at June 30, 2014 was $4,053,256, which represented 5.44% of the Fund's Net Assets.
(d) Security has an irrevocable call by the issuer or mandatory put by the holder. Maturity date reflects such call or put.
(e) Perpetual bond with no specified maturity date.
(f) 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, 2014

Financials	20.8%
Health Care	12.7
Information Technology	12.3
U.S. Treasury Securities	9.4
Consumer Discretionary	8.8
Energy	8.7
Industrials	6.7
Consumer Staples	4.0
Materials	2.7
Telecommunication Services	2.1
Utilities	1.9
Money Market Funds Plus Other Assets Less Liabilities	9.9

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

Statement of Assets and Liabilities

June 30, 2014
(Unaudited)

Assets:	
Investments, at value (Cost $64,412,498)	$67,130,930
Investments in affiliated money market funds, at value and cost	7,405,607
Total investments, at value (Cost $71,818,105)	74,536,537
Foreign currencies, at value (Cost $13,171)	13,227
Receivable for:	
Investments sold	6,787,783
Fund shares sold	8,541
Dividends and interest	155,288
Investment for trustee deferred compensation and retirement plans	74,658
Total assets	81,576,034
Liabilities:	
Payable for:	
Investments purchased	6,507,099
Fund shares reacquired	195,705
Amount due custodian	148,730
Forward foreign currency contracts outstanding	32,088
Accrued fees to affiliates	78,224
Accrued trustees' and officers' fees and benefits	631
Accrued other operating expenses	24,722
Trustee deferred compensation and retirement plans	78,863
Total liabilities	7,066,062
Net assets applicable to shares outstanding	$74,509,972
Net assets consist of:	
Shares of beneficial interest	$44,384,749
Undistributed net investment income	2,315,978
Undistributed net realized gain	25,123,537
Net unrealized appreciation	2,685,708
	$74,509,972
Net Assets:	
Series I	$72,754,336
Series II	$ 1,755,636
Shares outstanding, $0.001 par value per share, with an unlimited number of shares authorized:	
Series I	3,630,553
Series II	88,304
Series I:	
Net asset value per share	$ 20.04
Series II:	
Net asset value per share	$ 19.88

Statement of Operations

For the six months ended June 30, 2014
(Unaudited)

Investment income:	
Dividends (net of foreign withholding taxes of $7,535)	$ 850,175
Dividends from affiliated money market funds	912
Interest	54,592
Total investment income	905,679
Expenses:	
Advisory fees	202,935
Administrative services fees	103,045
Custodian fees	2,573
Distribution fees — Series II	2,120
Transfer agent fees	10,667
Trustees' and officers' fees and benefits	12,976
Professional services fees	19,795
Other	8,520
Total expenses	362,631
Less: Fees waived	(8,520)
Net expenses	354,111
Net investment income	551,568
Realized and unrealized gain (loss) from:	
Net realized gain (loss) from:	
Investment securities	22,314,320
Foreign currencies	3,911
Forward foreign currency contracts	(19,299)
	22,298,932
Change in net unrealized appreciation (depreciation) of:	
Investment securities	(11,696,994)
Foreign currencies	(528)
Forward foreign currency contracts	(32,088)
	(11,729,610)
Net realized and unrealized gain	10,569,322
Net increase in net assets resulting from operations	$ 11,120,890

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, 2014 and the year ended December 31, 2013
(Unaudited)

	June 30, 2014	December 31, 2013
Operations:		
Net investment income	$ 551,568	$ 1,836,834
Net realized gain	22,298,932	3,092,855
Change in net unrealized appreciation (depreciation)	(11,729,610)	2,119,618
Net increase in net assets resulting from operations	11,120,890	7,049,307
Distributions to shareholders from net investment income:		
Series I	–	(2,140,730)
Series II	–	(43,877)
Total distributions from net investment income	–	(2,184,607)
Distributions to shareholders from net realized gains:		
Series I	–	(1,490,858)
Series II	–	(33,701)
Total distributions from net realized gains	–	(1,524,559)
Share transactions–net:		
Series I	104,696	(5,600,398)
Series II	(185,537)	(64,627)
Net increase (decrease) in net assets resulting from share transactions	(80,841)	(5,665,025)
Net increase (decrease) in net assets	11,040,049	(2,324,884)
Net assets:		
Beginning of period	63,469,923	65,794,807
End of period (includes undistributed net investment income of $2,315,978 and $1,764,410, respectively)	$ 74,509,972	$63,469,923

Notes to Financial Statements

June 30, 2014
(Unaudited)

NOTE 1—Significant Accounting Policies

Invesco V.I. Managed Volatility Fund (the "Fund"), formerly Invesco V.I. Utilities 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 both capital appreciation and current income while managing portfolio volatility.

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 securities) 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 securities) 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.

The Fund may invest in securities that are subject to interest rate risk, meaning the risk that the prices will generally fall as interest rates rise and, conversely, the prices will generally rise as interest rates fall. Specific securities differ in their sensitivity to changes in interest rates depending on their individual characteristics. Changes in interest rates may result in increased market volatility, which may affect the value and/or liquidity of certain of the Fund's investments.

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 (net of withholding tax, if any) is recorded on the accrual basis from settlement date. Dividend income (net of withholding tax, if any) is recorded on the ex-dividend date. Bond premiums and discounts are amortized and/or accreted for financial reporting purposes.

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 recognizes the tax benefits of uncertain tax positions only when the position is more likely than not to be sustained. Management has analyzed the Fund's uncertain tax positions and concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions. Management is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next 12 months.

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. Forward Foreign Currency Contracts — The Fund may enter into forward foreign currency contracts to manage or minimize currency or exchange rate risk. The Fund may also enter into forward 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 forward 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 forward 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 forward 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(s) discretionary investment management services to the Fund based on the percentage of assets allocated to such Sub-Adviser(s).

Effective April 30, 2014, the Adviser has contractually agreed, through at least April 30, 2015, 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 1.03% and Series II shares to 1.28% of average daily net assets. Prior to April 30, 2014, the Adviser had contractually agreed 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 Invesco continues the fee waiver agreement, it will terminate on April 30, 2015. The fee waiver agreement cannot be terminated during its term. To the extent that the annualized expense ratio does not exceed the expense limitation, the Adviser will retain its ability to be reimbursed for such fee waivers or reimbursements prior to the end of each fiscal year.

Further, the Adviser has contractually agreed, through at least June 30, 2016, 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, 2014, the Adviser waived advisory fees of $8,520.

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, 2014, Invesco was paid $24,794 for accounting and fund administrative services and reimbursed $78,251 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, 2014, 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, 2014, expenses incurred under the Plan are detailed in the Statement of Operations as *Distribution fees*.

For the six months ended June 30, 2014, the Fund incurred $726 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, 2014. 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	$54,946,671	$ 621,366	$–	$55,568,037
U.S. Treasury Securities	–	7,035,874	–	7,035,874
Corporate Debt Securities	–	11,932,626	–	11,932,626
	$54,946,671	$19,589,866	$–	$74,536,537
Forward Foreign Currency Contracts*	–	(32,088)	–	(32,088)
Total Investments	$54,946,671	$19,557,778	$–	$74,504,449

* Unrealized appreciation (depreciation).

NOTE 4—Derivative Investments

Value of Derivative Investments at Period-End

The table below summarizes the value of the Fund's derivative investments, detailed by primary risk exposure, held as of June 30, 2014:

	Value	
Risk Exposure/Derivative Type	Assets	Liabilities
Currency risk		
Forward foreign currency contracts[a]	$–	$(32,088)

[a] Values are disclosed on the Statement of Assets and Liabilities under the caption *Forward foreign currency contracts outstanding*.

Effect of Derivative Investments for the six months ended June 30, 2014

The table below summarizes the gains (losses) on derivative investments, detailed by primary risk exposure, recognized in earnings during the period:

	Location of Gain (Loss) on Statement of Operations
	Forward Foreign Currency Contracts
Realized Gain (Loss)	
Currency risk	$(19,299)
Change in Unrealized Appreciation (Depreciation)	
Currency risk	$(32,088)
Total	$(51,387)

The table below summarizes the average notional value of forward foreign currency contracts outstanding during the period.

	Forward Foreign Currency Contracts
Average notional value	$1,478,825

Open Forward Foreign Currency Contracts at Period-End

Settlement Date	Counterparty	Contract to Deliver		Contract to Receive		Notional Value	Unrealized Appreciation (Depreciation)
07/25/14	Bank of New York Mellon (The)	CAD	443,751	USD	412,887	$415,586	$ (2,699)
07/25/14	State Street Bank and Trust Co.	CAD	444,257	USD	413,323	416,060	(2,737)
07/25/14	State Street Bank and Trust Co.	CHF	237,567	USD	265,462	267,965	(2,503)
07/25/14	Bank of New York Mellon (The)	CHF	238,567	USD	266,827	269,307	(2,480)
07/25/14	Bank of New York Mellon (The)	EUR	538,000	USD	731,416	736,736	(5,320)
07/25/14	State Street Bank and Trust Co.	EUR	542,153	USD	737,068	742,424	(5,356)
07/25/14	Bank of New York Mellon (The)	GBP	374,998	USD	636,525	641,659	(5,134)
07/25/14	State Street Bank and Trust Co.	GBP	374,741	USD	636,059	641,219	(5,160)
07/25/14	State Street Bank and Trust Co.	ILS	1,388,824	USD	403,963	404,578	(615)
07/25/14	Bank of New York Mellon (The)	ILS	236,855	USD	68,914	68,998	(84)
Total open forward foreign currency contracts — Currency Risk							$(32,088)

Currency Abbreviations:

CAD – Canadian Dollar
CHF – Swiss Franc
EUR – Euro
GBP – British Pound Sterling
ILS – Israeli Shekel
USD – U.S. Dollar

Offsetting Assets and Liabilities

Accounting Standards Update ("ASU") No. 2011-11, *Disclosures about Offsetting Assets and Liabilities,* which was subsequently clarified in Financial Accounting Standards Board ASU 2013-01 "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities" is intended to enhance disclosures about financial instruments and derivative instruments that are subject to offsetting arrangements on the Statement of Assets and Liabilities and to enable investors to better understand the effect of those arrangements on its financial position. In order for an arrangement to be eligible for netting, the Fund must have a basis to conclude that such netting arrangements are legally enforceable. The Fund enters into netting agreements and collateral agreements in an attempt to reduce the Fund's Counterparty credit risk by providing for a single net settlement with a Counterparty of all financial transactions covered by the agreement in an event of default as defined under such agreement.

There were no derivative instruments subject to a netting agreement for which the Fund is not currently netting. The following tables present derivative instruments that are either subject to an enforceable netting agreement or offset by collateral arrangements as of June 30, 2014.

Liabilities:

Counterparty	Gross amounts presented in Statement of Assets & Liabilities	Gross amounts offset in Statement of Assets & Liabilities	Net amounts of liabilities presented in the Statement of Assets and Liabilities	Collateral Pledged		Net Amount
				Financial Instruments	Cash	
Bank of New York Mellon (The)	$15,717	$–	$15,717	$–	$–	$15,717
State Street Bank and Trust Co.	16,371	–	16,371	–	–	16,371
Total	$32,088	$–	$32,088	$–	$–	$32,088

NOTE 5—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 were eligible to participate in a retirement plan that provided 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 6—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 7—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 GAAP. 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. Capital losses generated in years beginning after December 22, 2010 can be carried forward for an unlimited period, whereas previous losses expire in 8 tax years. 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. Capital loss carryforwards with no expiration date 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, 2013.

NOTE 8—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, 2014 was $60,025,389 and $71,879,320, respectively. During the same period, purchases and sales of U.S. Treasury obligations were $24,575,796 and $17,532,995, 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	$2,601,160
Aggregate unrealized (depreciation) of investment securities	(336,314)
Net unrealized appreciation of investment securities	$2,264,846

Cost of investments for tax purposes is $72,271,691.

NOTE 9—Share Information

	Summary of Share Activity			
	Six months ended June 30, 2014[a]		Year ended December 31, 2013	
	Shares	Amount	Shares	Amount
Sold:				
Series I	365,179	$ 6,836,715	891,055	$ 15,490,334
Series II	4,711	84,761	5,955	102,148
Issued as reinvestment of dividends:				
Series I	–	–	219,299	3,631,588
Series II	–	–	4,713	77,578
Reacquired:				
Series I	(364,726)	(6,732,019)	(1,440,447)	(24,722,320)
Series II	(14,781)	(270,298)	(13,991)	(244,353)
Net increase (decrease) in share activity	(9,617)	$ (80,841)	(333,416)	$ (5,665,025)

[a] There are entities that are record owners of more than 5% of the outstanding shares of the Fund and in the aggregate own 54% 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 10—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 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 06/30/14	$17.03	$0.15	$2.86	$3.01	$ –	$ –	$ –	$20.04	17.67%	$72,754	1.04%[d]	1.07%[d]	1.64%[d]	132%
Year ended 12/31/13	16.20	0.47	1.25	1.72	(0.52)	(0.37)	(0.89)	17.03	10.76	61,806	1.07	1.08	2.73	15
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
Series II														
Six months ended 06/30/14	16.91	0.13	2.84	2.97	–	–	–	19.88	17.56	1,756	1.29[d]	1.32[d]	1.39[d]	132
Year ended 12/31/13	16.09	0.43	1.23	1.66	(0.47)	(0.37)	(0.84)	16.91	10.45	1,664	1.32	1.33	2.48	15
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

[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 $66,495 and $1,710 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, 2014 through June 30, 2014.

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 (01/01/14)	Ending Account Value (06/30/14)[1]	Expenses Paid During Period[2,3]	Ending Account Value (06/30/14)	Expenses Paid During Period[2,4]	Annualized Expense Ratio[2]
Series I	$1,000.00	$1,176.70	$5.61	$1,019.64	$5.21	1.04%
Series II	1,000.00	1,174.90	6.96	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, 2014 through June 30, 2014, 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. Effective April 30, 2014, the Fund's adviser has contractually agreed to waive advisory fees and/or reimburse expenses to the extent necessary to limit total annual fund operating expense of Series I and Series II shares to 1.03% and 1.28% of average daily net assets, respectively. The annualized expense ratios restated as if these agreements had been in effect throughout the entire most recent fiscal half year are 1.03% and 1.28% for Series I and Series II shares, respectively.

3 The actual expenses paid restated as if the changes discussed above had been in effect throughout the entire most recent fiscal half year are $5.56 and $6.90 for Series I and Series II shares, respectively.

4 The hypothetical expenses paid restated as if the changes discussed above had been in effect throughout the entire most recent fiscal half year are $5.16 and $6.41 for Series I and Series II shares, respectively.

Approval of Investment Advisory and Sub-Advisory Contracts

The Board of Trustees (the Board) of AIM Variable Insurance Funds (Invesco Variable Insurance Funds) is required under the Investment Company Act of 1940, as amended, to approve annually the renewal of Invesco V.I. Managed Volatility Fund's (the Fund) investment advisory agreements. During contract renewal meetings held on June 16-17, 2014, the Board as a whole, and the disinterested or "independent" Trustees, who comprise over 75% of the Board, voting separately, approved the continuance for the Fund of the Master Investment Advisory Agreement with Invesco Advisers, Inc. (Invesco Advisers) and the Master Intergroup Sub-Advisory Contract for Mutual Funds 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 and the sub-advisory contracts) for another year, effective July 1, 2014.

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 Board determined that continuation of the Fund's investment advisory agreement and the sub-advisory contracts are in the best interest of the Fund and its shareholders and that 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. 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.

The Trustees recognized that the advisory fee rates for the Invesco Funds are, in many cases, the result of years of review and negotiation. 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 17, 2014, and may not reflect consideration of factors that became known to the Board after that date.

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. 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.

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 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 noted that the Fund had changed its investment strategy from a utilities fund to a managed volatility fund effective on April 30, 2014 and that the Lipper performance and comparative contractual management fee information was for the historical utilities mandate.

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 year period and the fourth quintile for the three and five year periods (the first quintile being the best performing funds and the fifth quintile being the worst performing funds). The Board noted that performance of Series I shares of the Fund was 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, but that Lipper does not provide information on a fund by fund basis as to what is included. The Board noted 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 noted that Invesco Advisers has contractually agreed to waive fees and/or limit expenses of the Fund through at least April 30, 2015 in an amount necessary to limit total annual operating expenses to a specified percentage of average daily net assets for each class of the Fund.

The Board noted that as of December 31, 2013, Invesco Advisers and the Affiliated Sub-Advisers did not manage other mutual funds or client accounts using an investment process substantially similar to the investment process used for 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 Advisors to the Affiliated Sub-Advisers.

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, 2013. 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 services Invesco Advisers and its subsidiaries provide to the Invesco Funds and the Fund. The Board did not deem the level of profits realized by Invesco Advisers and its affiliates from providing services to the Fund to be excessive given the nature, quality and extent of the services provided to the Invesco Funds. 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 that it receives 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 with respect to investments in the affiliated money market 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 amount of advisory fees received by Invesco Advisors from the Fund's investment of uninvested cash and cash collateral from any securities lending arrangements in the affiliated money market funds are fair and reasonable.

The Board also considered the Fund may use an affiliated broker to execute certain trades for the Fund to among other things, control information leakage, and were advised that such trades would be executed in compliance with rules under the Investment Company Act of 1940, as amended.

Proxy Results

A Special Meeting ("Meeting") of Shareholders of Invesco V.I. Managed Volatility Fund (formerly known as Invesco V.I. Utilities Fund) was held on March 26, 2014. The Meeting was held for the following purpose:

(1) Elimination of the Fund's fundamental investment restriction that requires the Fund to concentrate its investments in the securities of issuers engaged primarily in utilities-related industries.

The results of the voting on the above matter were as follows:

	Matter	Votes For	Votes Against	Votes Abstain	Broker Non-Votes
(1)	Elimination of the Fund's fundamental investment restriction that requires the Fund to concentrate its investments in the securities of issuers engaged primarily in utilities-related industries	2,044,023	244,325	113,978	0

SEMIANNUAL REPORT
June 30, 2014

Janus Aspen Series

Janus Aspen Forty Portfolio

HIGHLIGHTS

- Portfolio management perspective
- Investment strategy behind your portfolio
- Portfolio performance, characteristics and holdings

JANUS

Table of Contents

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 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

PERFORMANCE OVERVIEW

For the six-month period ended June 30, 2014, the Portfolio's Institutional Shares and Service Shares returned -0.21% and -0.33%, respectively, versus a return of 6.31% for the Portfolio's primary benchmark, the Russell 1000 Growth Index. The Portfolio's secondary benchmark, the S&P 500 Index, returned 7.14% for the period.

INVESTMENT ENVIRONMENT

U.S. large-cap growth equities posted gains during the period, lifted in part by evidence the economy was on stable footing and also confirmation that the Federal Reserve would be cautious in unwinding accommodative monetary policies supporting a stable but slow-growing economy.

OVERVIEW

We have focused on building a portfolio of companies that are well positioned to grow market share within their respective industries and that have built clear and sustainable competitive advantages around their businesses. Important competitive advantages could include a strong brand, network effects from a product or service that would be hard for a competitor to replicate, a lower cost structure than competitors in the industry, a distribution advantage or patent protection over valuable intellectual property. We think focusing on such sustainable competitive advantages can be a meaningful driver of outperformance over long time horizons because the market may underestimate the duration of growth for these companies and the long-term potential return to shareholders. During the recent 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. However, we also held stocks that fell during the period and negatively impacted performance. For most of the stocks that were large detractors from performance, we view the issues that affected their performance as short term in nature, and believe the competitive advantages held by these companies remain firmly in place.

Amazon, for example, was our largest detractor. The stock fell after it reported revenue growth below consensus expectations during the first quarter. This does not change our long-term outlook, however. We believe the company's size, scale and efficiency has allowed it to be a disruptive force. The company has completely rewritten the rules for retail shopping and we believe it will continue to gain consumers' wallet share as more shopping moves from physical stores to online and mobile purchases. Meanwhile, the company's cloud business, Amazon Web Services, has come to market with scale and a disruptive pricing model for businesses seeking cloud-based services.

TJX Companies, the parent company of T.J. Maxx and Marshalls, was another large detractor from performance. Like Amazon, the stock fell due to earnings results that were below market expectations. We believe the disappointing results were due largely to weaker in-store traffic caused by bad weather during the first quarter. We have generally avoided traditional, brick and mortar retail companies in our portfolio because we think e-commerce growth is a headwind for these companies. Growth in e-commerce creates more price transparency and also makes it harder for retailers to manage inventory. However, as an off-price retailer, T.J. Maxx is a beneficiary when other retailers struggle with excess inventory. The company buys the excess inventory at a discount from other retailers and is able to distribute it quickly across its stores. Selling that inventory at a discount also makes the company less affected by the threat of greater price transparency posed by e-commerce growth. The fact that the company has had negative same-store sales growth only once in the last 32 years speaks to its long-term growth potential, in our view.

MasterCard was another detractor. Over the long term, we believe payments companies such as MasterCard are poised to benefit as consumers and businesses switch from cash and check to plastic and electronic payments.

Janus Aspen Forty Portfolio (unaudited)

Among payments companies, we think MasterCard is particularly well positioned to benefit from this shift because a majority of its revenues are generated outside the U.S., where many markets have a lower penetration of card and electronic payments and are experiencing significantly faster electronic purchase volume growth. The stock fell during the first quarter after the company announced earnings that were below consensus estimates, but we believe the trend toward more plastic and electronic payments that will support MasterCard's long-term growth is firmly in place.

While the aforementioned stocks detracted from performance, we were pleased by the results of many other companies in our Portfolio. Canadian Pacific Railway was our largest contributor to performance. A new CEO took over the firm in 2012, and has transformed the company by focusing on three key points: better service and reliability to customers, improved profitability through operating efficiency and new revenue opportunities. Since then, the CEO has put a fully capable team in place to execute on each of the above points, and success in each category has driven the outperformance we are seeing. Service metrics such as on-time deliveries and velocity have improved, operating margins have increased dramatically with more opportunity to expand, and the company has driven new revenues from such markets as domestic Canada container traffic, grain and crude by rail. Most recently, a new CFO has joined the company and had a positive impact on driving better capital allocation decisions, including commencing a share repurchase program that further benefits shareholders.

Delphi Automotive was another top contributor this period. Like many holdings in our Portfolio, we believe the company has several competitive advantages that allow for a long duration of growth. The auto parts supplier has benefited from some of the enduring megatrends improving today's automobiles. Many of Delphi's products either make the car more safe, more environmentally friendly (fuel efficient), or help connect the automobile to the world around it. An example of the latter trend would be infotainment systems in the dashboard of a car. While Delphi has benefited from these long-term tailwinds, it also has a distribution advantage with a global platform enabling the company to serve clients in China, North America and Europe. Finally, the company also emerged from bankruptcy with minimal liabilities and has located its workforce in lower cost centers, which gives it a cost advantage over its competitors. That cost advantage has increased margins, and allowed Delphi to reinvest profits and work as a partner with its clients to develop new content in vehicles.

Valeant Pharmaceuticals was another top contributor. For the past decade, the company has run a different playbook than much of the pharmaceutical industry when it comes to new drug development. High research and development costs have been value destructive for many pharmaceutical companies, but Valeant has largely avoided high R&D spending by making a series of value accretive acquisitions of pharmaceutical companies with lower product risk. Valeant then takes many of the costs out of those companies and essentially acts as a distributor of a number of valuable drugs, rather than a company dependent on new drug discovery for growth. Going forward, the Canadian-domiciled company can use its lower tax rate as an advantage when it competes against U.S. private equity firms that may also try to acquire pharmaceutical companies. Valeant can potentially pay a premium for an acquisition target in a deal that is still accretive to Valeant because it can move the acquired company into a lower tax structure.

OUTLOOK

After a weak start to the year due primarily to poor weather, the U.S. economy appears to be reaccelerating. We believe economic growth in other parts of the globe will remain fairly choppy, but given a backdrop of slow growth we expect accommodative monetary policies across most developed nations to continue. We believe the U.S. market is anticipating higher interest rates, but as long as a gradual rise in rates is accompanied by a strengthening economy, we do not believe it will derail equities.

On a broad basis, we believe large-cap equities are reasonably valued. However, after considerable multiple expansion in the back half of 2013 and early 2014, we believe companies will need to demonstrate earnings growth to achieve further stock price appreciation. We believe our portfolio is well positioned for this type of market environment, as we own companies with strong secular growth trends that should demonstrate above-market earnings growth over longer time horizons.

Thank you for your investment in Janus Aspen Forty Portfolio.

(unaudited)

Janus Aspen Forty Portfolio At A Glance

5 Top Performers – Holdings

	Contribution
Canadian Pacific Railway, Ltd. (U.S. Shares)	0.84%
Delphi Automotive PLC	0.47%
Valeant Pharmaceuticals International, Inc. (U.S. Shares)	0.32%
Gilead Sciences, Inc.	0.30%
Monsanto Co.	0.29%

5 Bottom Performers – Holdings

	Contribution
Amazon.com, Inc.	–0.59%
TJX Cos., Inc.	–0.50%
MasterCard, Inc. – Class A	–0.43%
L Brands, Inc.	–0.35%
Panera Bread Co. – Class A	–0.27%

5 Top Performers – Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000® Growth Index Weighting
Industrials	0.39%	11.87%	12.37%
Consumer Staples	–0.02%	0.18%	11.78%
Utilities	–0.03%	0.00%	0.15%
Materials	–0.04%	3.66%	4.55%
Other**	–0.06%	1.47%	0.00%

5 Bottom Performers – Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000® Growth Index Weighting
Information Technology	–2.27%	23.24%	26.94%
Consumer Discretionary	–1.53%	27.40%	19.19%
Health Care	–0.98%	20.30%	12.58%
Financials	–0.88%	9.84%	5.47%
Energy	–0.82%	0.00%	4.80%

Security contribution to performance is measured by using an algorithm that multiplies the daily performance of each security with the previous day's ending weight in the portfolio and is gross of advisory fees. Fixed income securities and certain equity securities, such as private placements and some share classes of equity securities, are excluded.

* Based on sector classification according to the Global Industry Classification Standard ("GICS") codes, which are the exclusive property and a service mark of MSCI Inc. and Standard & Poor's.

** Not a GICS classified sector.

Janus Aspen Forty Portfolio (unaudited)

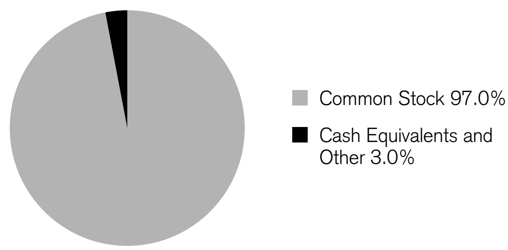
5 Largest Equity Holdings – (% of Net Assets)

As of June 30, 2014

Google, Inc. – Class C Internet Software & Services	6.0%
Precision Castparts Corp. Aerospace & Defense	4.5%
Canadian Pacific Railway, Ltd. (U.S. Shares) Road & Rail	4.3%
Delphi Automotive PLC Auto Components	3.8%
Celgene Corp. Biotechnology	3.7%
	22.3%

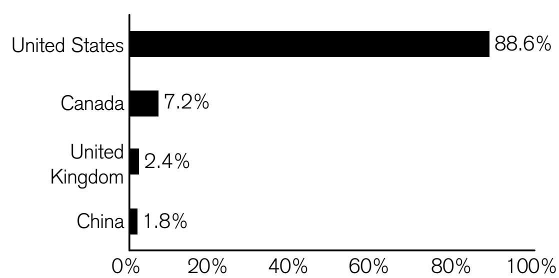
Asset Allocation – (% of Net Assets)

As of June 30, 2014

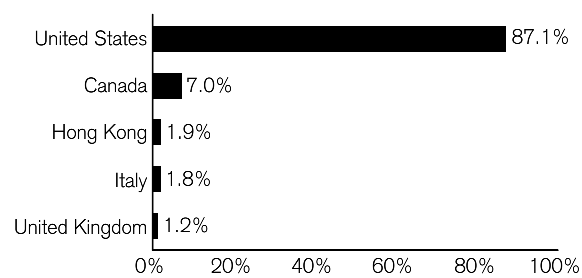


Top Country Allocations – Long Positions (% of Investment Securities)

As of June 30, 2014

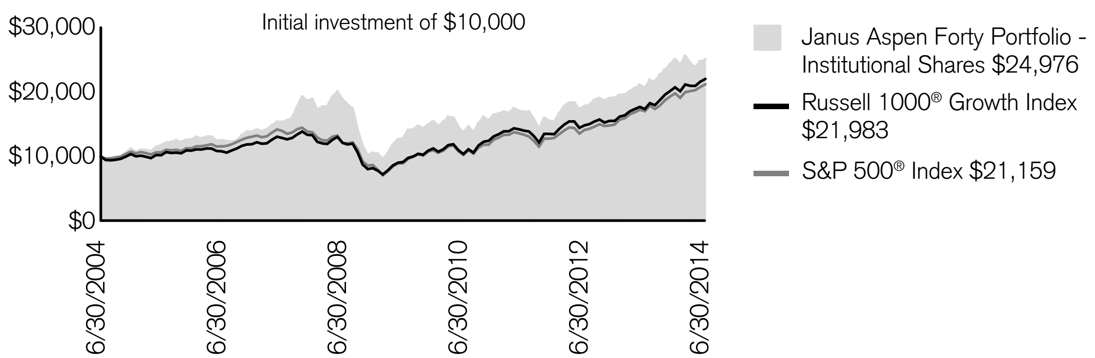


As of December 31, 2013



(unaudited)

Performance



Average Annual Total Return – for the periods ended June 30, 2014

Expense Ratios – per the May 1, 2014 prospectuses

	Fiscal Year-to-Date	One Year	Five Year	Ten Year	Since Inception*	Total Annual Fund Operating Expenses
Janus Aspen Forty Portfolio – Institutional Shares	–0.21%	21.52%	14.38%	9.59%	10.74%	0.55%
Janus Aspen Forty Portfolio – Service Shares	–0.33%	21.20%	14.10%	9.31%	10.42%	0.81%
Russell 1000® Growth Index	6.31%	26.92%	19.24%	8.20%	6.48%	
S&P 500® Index	7.14%	24.61%	18.83%	7.78%	7.32%	
Morningstar Quartile – Institutional Shares	–	4th	4th	1st	1st	
Morningstar Ranking – based on total returns for Large Growth Funds	–	1,601/1,762	1,485/1,546	152/1,357	32/815	

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.

This Portfolio has a performance-based management fee that may adjust up or down based on the Portfolio's performance.

A Portfolio's performance may be affected by risks that include those associated with nondiversification, non-investment grade debt securities, high-yield/high-risk securities, undervalued or overlooked companies, investments in specific industries or countries and potential conflicts of interest. Additional risks to a Portfolio may also include, but are not limited to, those associated with investing in foreign securities, emerging markets, initial public offerings, real estate investment trusts (REITs), derivatives, short sales, commodity-linked investments and companies with relatively small market capitalizations. Each Portfolio has different risks. Please see a Janus prospectus for more information about risks, Portfolio holdings and other details.

Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility and differing financial and information reporting standards, all of which are magnified in emerging markets.

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 all dividends and distributions and do not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares. 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.

See important disclosures on the next page

Janus Aspen Forty Portfolio (unaudited)

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.

A Portfolio's holdings may differ significantly from the securities held in an index. An index is unmanaged and not available for direct investment; therefore, its performance does not reflect the expenses associated with the active management of an actual portfolio.

See "Useful Information About Your Portfolio Report."

* 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 (1/1/14)	Ending Account Value (6/30/14)	Expenses Paid During Period (1/1/14 - 6/30/14)†	Beginning Account Value (1/1/14)	Ending Account Value (6/30/14)	Expenses Paid During Period (1/1/14 - 6/30/14)†	Net Annualized Expense Ratio (1/1/14 - 6/30/14)
Institutional Shares	$1,000.00	$997.90	$2.82	$1,000.00	$1,021.97	$2.86	0.57%
Service Shares	$1,000.00	$996.70	$4.06	$1,000.00	$1,020.73	$4.11	0.82%

† Expenses Paid During Period are equal to the Net Annualized Expense Ratio multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half year period). 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, 2014

Shares		Value
Common Stock – 97.0%		
Aerospace & Defense – 4.5%		
141,790	Precision Castparts Corp.	$ 35,787,796
Auto Components – 3.8%		
440,061	Delphi Automotive PLC	30,249,793
Biotechnology – 9.5%		
56,002	Biogen Idec, Inc.*	17,657,990
348,800	Celgene Corp.*	29,954,944
269,823	Gilead Sciences, Inc.*	22,371,025
70,722	Pharmacyclics, Inc.*	6,344,471
		76,328,430
Capital Markets – 0.3%		
104,832	E*TRADE Financial Corp.*	2,228,728
Chemicals – 3.6%		
229,454	Monsanto Co.	28,622,092
Commercial Banks – 3.4%		
620,515	U.S. Bancorp	26,880,710
Diversified Financial Services – 1.9%		
80,262	IntercontinentalExchange Group, Inc.	15,161,492
Electronic Equipment, Instruments & Components – 1.5%		
124,799	Amphenol Corp. – Class A	12,023,136
Health Care Technology – 1.0%		
61,392	athenahealth, Inc.*	7,681,981
Hotels, Restaurants & Leisure – 5.3%		
404,982	MGM Resorts International*	10,691,525
80,660	Panera Bread Co. – Class A*	12,085,287
254,697	Starbucks Corp.	19,708,454
		42,485,266
Information Technology Services – 3.1%		
340,604	MasterCard, Inc. – Class A	25,024,176
Insurance – 2.5%		
224,048	Aon PLC	20,184,484
Internet & Catalog Retail – 6.7%		
78,228	Amazon.com, Inc.*	25,406,890
23,267	Priceline Group, Inc.*	27,990,201
		53,397,091
Internet Software & Services – 11.4%		
77,286	CoStar Group, Inc.*	12,224,327
83,094	Google, Inc. – Class C*	47,802,316
49,230	LinkedIn Corp. – Class A*	8,441,468
934,500	Tencent Holdings, Ltd.	14,252,265
245,110	Yahoo!, Inc.*	8,610,714
		91,331,090
Machinery – 1.8%		
92,079	Cummins, Inc.	14,206,869
Media – 5.8%		
354,997	Comcast Corp. – Class A	19,056,239
784,003	Twenty-First Century Fox, Inc. – Class A	27,557,705
		46,613,944
Pharmaceuticals – 8.9%		
331,319	Endo International PLC*	23,198,956
177,069	Valeant Pharmaceuticals International, Inc. (U.S. Shares)	22,331,942
811,336	Zoetis, Inc.	26,181,813
		71,712,711
Professional Services – 2.2%		
362,787	Nielsen Holdings NV	$ 17,562,519
Real Estate Investment Trusts (REITs) – 2.6%		
286,002	Crown Castle International Corp.	21,238,509
Road & Rail – 4.3%		
190,176	Canadian Pacific Railway, Ltd. (U.S. Shares)	34,448,481
Semiconductor & Semiconductor Equipment – 2.4%		
424,447	ARM Holdings PLC (ADR)	19,201,982
Software – 3.6%		
498,019	Salesforce.com, Inc.*	28,924,943
Specialty Retail – 5.8%		
561,420	Lowe's Cos., Inc.	26,942,546
370,195	TJX Cos., Inc.	19,675,864
		46,618,410
Wireless Telecommunication Services – 1.1%		
272,324	T-Mobile U.S., Inc.	9,155,533
Total Common Stock (cost $611,703,461)		777,070,166
Money Market – 1.6%		
12,827,951	Janus Cash Liquidity Fund LLC, 0.0737%°°,£ (cost $12,827,951)	12,827,951
Total Investments (total cost $624,531,412) – 98.6%		789,898,117
Cash, Receivables and Other Assets, net of Liabilities – 1.4%		11,018,534
Net Assets – 100%		$800,916,651

Summary of Investments by Country – (Long Positions) (unaudited)

Country	*Value*	*% of Investment Securities*
United States††	$699,663,447	88.6%
Canada	56,780,423	7.2
United Kingdom	19,201,982	2.4
China	14,252,265	1.8
Total	$789,898,117	100.0%

†† Includes Cash Equivalents of 1.6%.

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.
ADR	American Depositary Receipt
LLC	Limited Liability Company
PLC	Public Limited Company
U.S. Shares	Securities of foreign companies trading on an American stock exchange.

* Non-income producing security.

∞ Rate shown is the 7-day yield as of June 30, 2014.

£ 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, 2014. Unless otherwise indicated, all information in the table is for the period ended June 30, 2014.

	Share Balance at 12/31/13	*Purchases*	*Sales*	*Share Balance at 6/30/14*	*Realized Gain/(Loss)*	*Dividend Income*	*Value at 6/30/14*
Janus Aspen Forty Portfolio							
Janus Cash Liquidity Fund LLC	13,728,000	152,792,514	(153,692,563)	12,827,951	$–	$3,193	$12,827,951

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, 2014. See Notes to Financial Statements for more information.

Valuation Inputs Summary (as of June 30, 2014)

	Level 1 – Quoted Prices	**Level 2 – Other Significant Observable Inputs**	**Level 3 – Significant Unobservable Inputs**
Janus Aspen Forty Portfolio			
Assets			
Investments in Securities:			
Common Stock	$777,070,166	$ –	$–
Money Market	–	12,827,951	–
Total Assets	$777,070,166	$12,827,951	$–

Statement of Assets and Liabilities

As of June 30, 2014 (unaudited)	Janus Aspen Forty Portfolio
Assets:	
Investments at cost	$624,531,412
Unaffiliated investments at value	$777,070,166
Affiliated investments at value	12,827,951
Cash	826
Non-interested Trustees' deferred compensation	16,225
Receivables:	
Investments sold	13,572,716
Portfolio shares sold	196,061
Dividends	310,616
Foreign dividend tax reclaim	113,759
Other assets	8,521
Total Assets	804,116,841
Liabilities:	
Payables:	
Investments purchased	2,229,719
Portfolio shares repurchased	312,607
Advisory fees	303,129
Fund administration fees	6,587
Internal servicing cost	184
Distribution fees and shareholder servicing fees	101,561
Non-interested Trustees' fees and expenses	6,105
Non-interested Trustees' deferred compensation fees	16,225
Accrued expenses and other payables	224,073
Total Liabilities	3,200,190
Net Assets	$800,916,651
Net Assets Consist of:	
Capital (par value and paid-in surplus)*	$526,207,631
Undistributed net investment loss*	(321,305)
Undistributed net realized gain from investment and foreign currency transactions*	109,654,357
Unrealized net appreciation of investments, foreign currency translations and non-interested Trustees' deferred compensation	165,375,968
Total Net Assets	$800,916,651
Net Assets - Institutional Shares	$307,440,468
Shares Outstanding, $0.001 Par Value (unlimited shares authorized)	8,318,033
Net Asset Value Per Share	$ 36.96
Net Assets - Service Shares	$493,476,183
Shares Outstanding, $0.001 Par Value (unlimited shares authorized)	13,694,709
Net Asset Value Per Share	$ 36.03

* See "Federal Income Tax" in Notes to Financial Statements.

See Notes to Financial Statements.

Statement of Operations

For the period ended June 30, 2014 (unaudited)	*Janus Aspen Forty Portfolio*
Investment Income:	
Interest	$ 6,278
Dividends	2,681,415
Dividends from affiliates	3,193
Foreign tax withheld	(52,973)
Total Investment Income	2,637,913
Expenses:	
Advisory fees	2,076,095
Shareholder reports expense	85,087
Transfer agent fees and expenses	1,000
Registration fees	40,292
Custodian fees	13,789
Professional fees	30,936
Non-interested Trustees' fees and expenses	12,258
Fund administration fees	32,506
Distribution fees and shareholder servicing fees - Service Shares	617,610
Other expenses	34,071
Total Expenses	2,943,644
Net Expenses after Waivers and Expense Offsets	2,943,644
Net Investment Loss	(305,731)
Net Realized Gain on Investments:	
Investments and foreign currency transactions	109,813,982
Total Net Realized Gain on Investments	109,813,982
Change in Unrealized Net Appreciation/Depreciation:	
Investments, foreign currency translations and non-interested Trustees' deferred compensation	(112,437,409)
Total Change in Unrealized Net Appreciation/Depreciation	(112,437,409)
Net Decrease in Net Assets Resulting from Operations	$ (2,929,158)

See Notes to Financial Statements.

Statements of Changes in Net Assets

For the period ended June 30 (unaudited) and the year ended December 31	*Janus Aspen Forty Portfolio* 2014	2013(1)
Operations:		
Net investment income/(loss)	$ (305,731)	$ 1,676,872
Net realized gain on investments	109,813,982	311,909,801
Change in unrealized net appreciation/depreciation	(112,437,409)	(50,019,249)
Net Increase/(Decrease) in Net Assets Resulting from Operations	(2,929,158)	263,567,424
Dividends and Distributions to Shareholders:		
Net Investment Income*		
Institutional Shares	(503,982)	(3,544,826)
Service Shares	(154,665)	(2,838,756)
Net Realized Gain from Investment Transactions*		
Institutional Shares	(93,285,383)	–
Service Shares	(152,735,352)	–
Net Decrease from Dividends and Distributions to Shareholders	(246,679,382)	(6,383,582)
Capital Share Transactions:		
Shares Sold		
Institutional Shares	10,553,473	40,696,153
Service Shares	14,543,321	32,866,372
Reinvested Dividends and Distributions		
Institutional Shares	93,789,365	3,544,826
Service Shares	152,890,017	2,838,756
Shares Repurchased		
Institutional Shares	(57,717,727)	(305,138,229)
Service Shares	(45,932,988)	(108,967,925)
Net Increase/(Decrease) from Capital Share Transactions	168,125,461	(334,160,047)
Net Decrease in Net Assets	(81,483,079)	(76,976,205)
Net Assets:		
Beginning of period	882,399,730	959,375,935
End of period	$ 800,916,651	$ 882,399,730
Undistributed Net Investment Income/(Loss)*	$ (321,305)	$ 643,073

* See “Federal Income Tax” in Notes to Financial Statements.
(1) Amounts reflect current year presentation. Prior year amounts were disclosed in thousands.

See Notes to Financial Statements.

Financial Highlights

Institutional Shares

For a share outstanding during the period ended June 30, 2014 (unaudited) and each year ended December 31	Janus Aspen Forty Portfolio					
	2014	*2013*	*2012*	*2011*	*2010*	*2009*
Net Asset Value, Beginning of Period	$53.34	$40.95	$33.22	$35.74	$33.61	$22.97
Income from Investment Operations:						
Net investment income	0.02(1)	0.38	0.47	0.23	0.19	0.08
Net gain/(loss) on investments (both realized and unrealized)	(0.22)	12.34	7.54	(2.62)	2.06	10.57
Total from Investment Operations	(0.20)	12.72	8.01	(2.39)	2.25	10.65
Less Distributions and Other:						
Dividends (from net investment income)*	(0.09)	(0.33)	(0.28)	(0.13)	(0.12)	–(2)
Distributions (from capital gains)*	(16.09)	–	–	–	–	–
Return of capital	–	–	–	–	–	(0.01)
Total Distributions and Other	(16.18)	(0.33)	(0.28)	(0.13)	(0.12)	(0.01)
Net Asset Value, End of Period	$36.96	$53.34	$40.95	$33.22	$35.74	$33.61
Total Return**	(0.21)%	31.23%	24.16%	(6.69)%	6.72%	46.38%
Net Assets, End of Period (in thousands)	$307,440	$355,429	$488,374	$459,459	$567,322	$582,511
Average Net Assets for the Period (in thousands)	$320,927	$491,231	$512,799	$518,818	$553,994	$482,572
Ratio of Gross Expenses (Absent the Waiver of Certain Fees and Expense Offsets) to Average Net Assets***	0.57%	0.55%	0.55%	0.70%	0.67%	0.68%
Ratio of Net Expenses (After Waivers and Expense Offsets) to Average Net Assets***	0.57%	0.55%	0.55%	0.70%	0.67%	0.68%
Ratio of Net Investment Income to Average Net Assets***	0.07%	0.31%	1.03%	0.56%	0.52%	0.05%
Portfolio Turnover Rate	29%	61%	10%	46%	36%	32%

Service Shares

For a share outstanding during the period ended June 30, 2014 (unaudited) and each year ended December 31	Janus Aspen Forty Portfolio					
	2014	*2013*	*2012*	*2011*	*2010*	*2009*
Net Asset Value, Beginning of Period	$52.40	$40.28	$32.72	$35.24	$33.17	$22.73
Income from Investment Operations:						
Net investment income/(loss)	(0.04)(1)	–(2)	0.31	0.09	0.07	–(2)
Net gain/(loss) on investments (both realized and unrealized)	(0.22)	12.38	7.47	(2.52)	2.08	10.44
Total from Investment Operations	(0.26)	12.38	7.78	(2.43)	2.15	10.44
Less Distributions and Other:						
Dividends (from net investment income)*	(0.02)	(0.26)	(0.22)	(0.09)	(0.08)	–(2)
Distributions (from capital gains)*	(16.09)	–	–	–	–	–
Return of capital	–	–	–	–	–	–(2)
Total Distributions and Other	(16.11)	(0.26)	(0.22)	(0.09)	(0.08)	–
Net Asset Value, End of Period	$36.03	$52.40	$40.28	$32.72	$35.24	$33.17
Total Return**	(0.33)%	30.89%	23.82%	(6.91)%	6.48%	45.95%
Net Assets, End of Period (in thousands)	$493,476	$526,971	$471,002	$417,408	$532,645	$639,979
Average Net Assets for the Period (in thousands)	$501,084	$486,845	$468,967	$475,743	$567,062	$520,592
Ratio of Gross Expenses (Absent the Waiver of Certain Fees and Expense Offsets) to Average Net Assets***	0.82%	0.81%	0.80%	0.95%	0.92%	0.93%
Ratio of Net Expenses (After Waivers and Expense Offsets) to Average Net Assets***	0.82%	0.81%	0.80%	0.95%	0.92%	0.93%
Ratio of Net Investment Income/(Loss) to Average Net Assets***	(0.17)%	0.04%	0.81%	0.31%	0.25%	(0.22)%
Portfolio Turnover Rate	29%	61%	10%	46%	36%	32%

* See "Federal Income Tax" 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) Per share amounts are calculated based on average shares outstanding during the period.
(2) Less than $0.005 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, and therefore has applied the specialized accounting and reporting guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946. 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 as well as certain 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 held by the Portfolio are valued in accordance with policies and procedures established by and under the supervision of the Trustees (the "Valuation Procedures"). Equity securities traded on a domestic securities exchange are generally valued at the closing prices on the primary market or exchange on which they trade. If such price is lacking for the trading period immediately preceding the time of determination, such securities are valued at their current bid price. Equity securities that are traded on a foreign exchange are generally valued at the closing prices on such markets. In the event that there is no current trading volume on a particular security in such foreign exchange, the bid price from the primary exchange is generally used to value the security. Securities that are traded on the over-the-counter ("OTC") markets are generally valued at their closing or latest bid prices as available. Foreign securities and currencies are converted to U.S. dollars using the applicable exchange rate in effect at the close of the New York Stock Exchange ("NYSE"). The Portfolio will determine the market value of individual securities held by it by using prices provided by one or more professional pricing services which may provide market prices to other funds or, as needed, by obtaining market quotations from independent broker-dealers. Short-term securities maturing within 60 days or less are valued on an amortized cost basis. 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 that is intended to reflect market value. The evaluated bid price supplied by the pricing service is an evaluation that may consider factors such as security prices, yields, maturities and ratings. Securities for which market quotations or evaluated prices are not readily available or deemed unreliable are valued at fair value determined in good faith under the Valuation Procedures. 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 nonvalued security and a restricted or nonpublic 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.

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 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.

Indemnifications
In the normal course of business, the Portfolio may enter into contracts that contain provisions for indemnification of other parties against certain potential liabilities. The Portfolio's maximum exposure under these arrangements is unknown, and would involve future claims that may be made against the Portfolio that have not yet occurred. Currently, the risk of material loss from such claims is considered remote.

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).

The Portfolio may make certain investments in real estate investment trusts ("REITs") which pay dividends to their shareholders based upon funds available from operations. It is quite common for these dividends to exceed the REITs' taxable earnings and profits, resulting in the excess portion of such dividends being designated as a return of capital. If the Portfolio distributes such amounts, such distributions could constitute a return of capital to shareholders for federal income tax purposes.

Federal Income Taxes
The Portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income in accordance with the requirements of Subchapter M of the Internal Revenue Code. 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. 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.

Valuation Inputs Summary
In accordance with FASB standard 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 may be 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, swaps, investments in unregistered investment companies, 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.

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, 2014 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.

There were no transfers between Level 1, Level 2 and Level 3 during the period. The Portfolio recognizes transfers between the levels as of the beginning of the fiscal year.

2. Other Investments and Strategies

Additional Investment Risk

The financial crisis that began in 2008 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 took steps to support the financial markets. The withdrawal of this support, a failure of measures put in place to respond to the crisis, or investor perception that such efforts were not sufficient each could 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 continue to impact 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. As a result, 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 provided 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 remain pending and 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 increased 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.

Real Estate Investing

The Portfolio may invest in equity and debt securities of real estate-related companies. Such companies may include those in the real estate industry or real estate-related industries. These securities may include common stocks, preferred stocks, and other equity securities, including, but not limited to, mortgage-backed securities, real estate-backed securities, securities of REITs and similar REIT-like entities. A REIT is a trust that invests in real estate-related projects, such as properties, mortgage loans, and construction loans. REITs are generally categorized as equity, mortgage, or hybrid REITs. A REIT may be listed on an exchange or traded OTC.

3. 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 will be equal to the time that has elapsed since the performance-based fee structure took effect. The 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 the Portfolio's 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, 2014, the Portfolio recorded a Performance Adjustment of $(517,291).

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 shareholder relations services for the Portfolio. Janus Services is not compensated for its services related to the shares, except for out-of-pocket costs.

Under a distribution and shareholder servicing plan (the "Plan") adopted in accordance with Rule 12b-1 under the 1940 Act, the Service Shares may pay the Trust's distributor, Janus Distributors LLC, a wholly-owned subsidiary of Janus Capital, a fee at an annual rate of up to 0.25% of the average daily net assets of the Shares. Under the terms of the Plan, the Trust is authorized to make payments to Janus Distributors for remittance to insurance companies and qualified plan service providers as compensation for distribution and/or administrative services performed by such entities. 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, 2014 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, 2014 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 $144,500 were paid by the Trust to a Trustee under the Deferred Plan during the period ended June 30, 2014.

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 $18,154 was paid to the Chief Compliance Officer and certain compliance staff by the Trust during the period ended June 30, 2014. The Portfolio's portion is reported as part of "Other expenses" on the Statement of Operations.

The Portfolio's expenses may be reduced by expense offsets from an unaffiliated custodian and/or transfer agent. Such credits or offsets are included in "Expense and Fee Offset" on the Statement of Operations. The Portfolio could have employed the assets used by the custodian and/or transfer agent to produce income if it had not entered into an expense offset arrangement.

Pursuant to the provisions of the 1940 Act and rules promulgated thereunder, the Portfolio may participate in an affiliated or nonaffiliated cash sweep program. In the cash sweep program, uninvested cash balances of the Portfolio may be used to purchase shares of affiliated or nonaffiliated money market funds or cash management pooled investment vehicles. The Portfolio is eligible to participate in the cash sweep program (the "Investing Fund"). Janus Cash Liquidity Fund LLC is an affiliated unregistered cash management pooled investment vehicle that invests primarily in highly-rated short-term fixed-income securities. Janus Cash Liquidity Fund LLC currently maintains a NAV of $1.00 per share and distributes income daily in a manner consistent with a registered 2a-7 product. There are no restrictions on the Portfolio's ability to withdraw investments from Janus Cash Liquidity Fund LLC at will, and there are no unfunded capital commitments due from the Portfolio to Janus Cash Liquidity Fund LLC. As adviser, Janus Capital has an inherent conflict of interest because of its fiduciary duties to the affiliated cash management pooled investment vehicles and the Investing Fund.

During the period ended June 30, 2014, 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.

4. 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, 2014 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	$624,609,539	$172,748,349	$(7,459,771)	$165,288,578

5. Capital Share Transactions

For the period ended June 30 (unaudited) and the year ended December 31	*Janus Aspen Forty Portfolio* 2014	2013(1)
Transactions in Portfolio Shares – Institutional Shares		
Shares sold	205,214	909,273
Reinvested dividends and distributions	2,552,786	80,463
Shares repurchased	(1,103,819)	(6,252,548)
Net Increase/(Decrease) in Portfolio Shares	1,654,181	(5,262,812)
Shares Outstanding, Beginning of Period	6,663,852	11,926,664
Shares Outstanding, End of Period	8,318,033	6,663,852
Transactions in Portfolio Shares – Service Shares		
Shares sold	286,734	726,178
Reinvested dividends and distributions	4,268,286	65,591
Shares repurchased	(916,715)	(2,428,486)
Net Increase/(Decrease) in Portfolio Shares	3,638,305	(1,636,717)
Shares Outstanding, Beginning of Period	10,056,404	11,693,121
Shares Outstanding, End of Period	13,694,709	10,056,404

(1) Amounts reflect current year presentation. Prior year amounts were disclosed in thousands.

6. Purchases and Sales of Investment Securities

For the period ended June 30, 2014, 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	$238,696,496	$334,984,726	$–	$–

7. Subsequent Event

Management has evaluated whether any other events or transactions occurred subsequent to June 30, 2014 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 Investment Fund and Janus Aspen Series, each of whom serves as an "independent" Trustee (the "Trustees"), oversee the management of each Fund of Janus Investment Fund and each Portfolio of Janus Aspen Series (each, a "Fund" and collectively, the "Funds"), and as required by law, determine annually whether to continue the investment advisory agreement for each Fund and the subadvisory agreements for the 16 Funds that utilize subadvisers.

In connection with their most recent consideration of those agreements for each Fund, the Trustees received and reviewed information provided by Janus Capital and the respective subadvisers in response to requests of the Trustees and their independent legal counsel. They also received and reviewed 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 17, 2013, based on the Trustees' evaluation of the information provided by Janus Capital, the subadvisers, and the independent fee consultant, as well as other information, the Trustees determined that the overall arrangements between each Fund and Janus Capital and each 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 subadvisers, 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 Fund, and the subadvisory agreement for each subadvised Fund, for the period from either January 1 or February 1, 2014 through January 1 or February 1, 2015, respectively, 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. "Management fees," as used herein, reflect actual annual advisory fees and any administration fees, net of any waivers.

Nature, Extent and Quality of Services

The Trustees reviewed the nature, extent and quality of the services provided by Janus Capital and the subadvisers to the Funds, taking into account the investment objective, strategies and policies of each Fund, 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 Funds. In addition, the Trustees reviewed the resources and key personnel of Janus Capital and each subadviser, particularly noting those employees who provide investment and risk management services to the Funds. The Trustees also considered other services provided to the Funds by Janus Capital or the subadvisers, 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 Funds, 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 Funds' 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 Funds 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 Funds and 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 Fund were appropriate and consistent with the terms of the respective advisory and subadvisory agreements, and that, taking into account steps taken to address those Funds whose performance lagged that of their peers for certain periods, the Funds were likely to benefit from the continued provision of those services. They also concluded that Janus Capital and each subadviser had sufficient personnel, with the appropriate education and experience, to serve the Funds effectively and had demonstrated its ability to attract well-qualified personnel.

Performance of the Funds

The Trustees considered the performance results of each Fund over various time periods. They noted that they considered Fund performance data throughout the year, including periodic meetings with each Fund's portfolio manager(s), and also reviewed information comparing each Fund's performance with the performance of comparable funds and peer groups identified by independent data providers, and with the Fund's benchmark index. In this regard, the independent fee consultant found that the overall Funds' performance has improved modestly: for the 36 months ended September 30, 2013, approximately 51% of the Funds were in the top two Lipper quartiles of performance, and for the 12 months ended September 30, 2013, approximately 52% of the Funds were in the top two Lipper quartiles of performance.

The Trustees considered the performance of each Fund, noting that performance may vary by share class, and noted the following:

Fixed-Income Funds and Money Market Funds

- For Janus Flexible Bond Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2013 and the second Lipper quartile for the 12 months ended May 31, 2013.
- For Janus Global Bond Fund, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, and its limited performance history.
- For Janus High-Yield Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2013 and the third Lipper quartile for the 12 months ended May 31, 2013.
- For Janus Real Return Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 12 months ended May 31, 2013.
- For Janus Short-Term Bond Fund, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2013 and the third Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Government Money Market Fund, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2013 and the first Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance and that the performance trend was improving.
- For Janus Money Market Fund, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2013 and the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance.

Asset Allocation Funds

- For Janus Global Allocation Fund – Conservative, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2013 and the 12 months ended May 31, 2013.
- For Janus Global Allocation Fund – Growth, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2013 and the second Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.

- For Janus Global Allocation Fund – Moderate, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2013 and the second Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.

Alternative Funds

- For Janus Diversified Alternatives Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, and its limited performance history.
- For Janus Global Real Estate Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2013 and the second Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.

Value Funds

- For Perkins Global Value Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2013 and the third Lipper quartile for the 12 months ended May 31, 2013.
- For Perkins Large Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2013 and the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or was taking to improve performance.
- For Perkins Mid Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2013 and the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or was taking to improve performance.
- For Perkins Select Value Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, and its limited performance history.
- For Perkins Small Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2013 and the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or was taking to improve performance.
- For Perkins Value Plus Income Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 12 months ended May 31, 2013.

Mathematical Funds

- For INTECH Global Dividend Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 12 months ended May 31, 2013.
- For INTECH International Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2013 and the first Lipper quartile for the 12 months ended May 31, 2013.
- For INTECH U.S. Core Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2013 and the third Lipper quartile for the 12 months ended May 31, 2013.
- For INTECH U.S. Growth Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2013 and the third Lipper quartile for the 12 months ended May 31, 2013.
- For INTECH U.S. Value Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2013 and the second Lipper quartile for the 12 months ended May 31, 2013.

Growth and Core Funds

- For Janus Balanced Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2013 and the second Lipper quartile for the 12 months ended May 31, 2013.

- For Janus Contrarian Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2013 and the first Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Enterprise Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2013 and the second Lipper quartile for the 12 months ended May 31, 2013.
- For Janus Forty Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2013 and the second Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2013 and the third Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Growth and Income Fund, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2013 and in the second Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Research Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2013 and the 12 months ended May 31, 2013.
- For Janus Triton Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2013 and the third Lipper quartile for the 12 months ended May 31, 2013.
- For Janus Twenty Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2013 and the third Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Venture Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2013 and the third Lipper quartile for the 12 months ended May 31, 2013.

Global and International Funds

- For Janus Asia Equity Fund, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, and its limited performance history.
- For Janus Emerging Markets Fund, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, and its limited performance history.
- For Janus Global Life Sciences Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2013 and the 12 months ended May 31, 2013.
- For Janus Global Research Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2013 and the third Lipper quartile for the 12 months ended May 31, 2013.
- For Janus Global Select Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2013 and the third Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.

- For Janus Global Technology Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2013 and the 12 months ended May 31, 2013.
- For Janus International Equity Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2013 and the first Lipper quartile for the 12 months ended May 31, 2013.
- For Janus Overseas Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2013 and the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.

Preservation Series

- For Janus Preservation Series – Global, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, and its limited performance history.
- For Janus Preservation Series – Growth, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, and its limited performance history.

Janus Aspen Series

- For Janus Aspen Balanced Portfolio, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2013 and the 12 months ended May 31, 2013.
- For Janus Aspen Enterprise Portfolio, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2013 and the second Lipper quartile for the 12 months ended May 31, 2013.
- For Janus Aspen Flexible Bond Portfolio, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2013 and the second Lipper quartile for the 12 months ended May 31, 2013.
- For Janus Aspen Forty Portfolio, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2013 and the second Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Aspen Global Allocation Portfolio – Moderate, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 12 months ended May 31, 2013.
- For Janus Aspen Global Research Portfolio, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2013 and the first Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and that the performance trend was improving.
- For Janus Aspen Global Technology Portfolio, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2013 and the first Lipper quartile for the 12 months ended May 31, 2013.
- For Janus Aspen INTECH U.S. Low Volatility Portfolio, the Trustees noted that this was a new Fund and did not yet have extensive performance to evaluate.
- For Janus Aspen Janus Portfolio, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2013 and the second Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Aspen Overseas Portfolio, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2013 and the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.

- For Janus Aspen Perkins Mid Cap Value Portfolio, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2013 and the third Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital and Perkins had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Aspen Preservation Series – Growth, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 12 months ended May 31, 2013. The Trustees noted the reasons for the Fund's underperformance, and its limited performance history.

In consideration of each Fund's performance, the Trustees concluded that, taking into account the factors relevant to performance, as well as other considerations, the Fund's performance warranted continuation of the Fund's investment advisory agreement(s).

Costs of Services Provided

The Trustees examined information regarding the fees and expenses of each Fund 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 many of the Funds, after applicable contractual expense limitations, was below the mean management fee rate of the respective peer group of funds selected by independent data providers. The Trustees also examined information regarding the subadvisory fees charged for subadvisory services, as applicable, noting that all such fees were paid by Janus Capital out of its management fees collected from such Fund.

In this regard, the independent fee consultant provided its belief that the management fees charged by Janus Capital to each of the 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 Funds to be reasonable relative to other mutual funds; (2) total expenses, on average, were 17% below the mean total expenses of their respective Lipper Expense Group peers and 29% below the mean total expenses for their Lipper Expense Universes; (3) management fees for the Funds, on average, were 14% below the mean management fees for their Expense Groups and 16% below the mean for their Expense Universes; and (4) Janus fund expenses at the functional level for each asset and share class category were reasonable. The Trustees also considered how the total expenses for each share class of each Fund compared to the mean total expenses for its Lipper Expense Group peers and to mean total expenses for its Lipper Expense Universe.

The independent fee consultant concluded that, based on its strategic review of expenses at the complex, category and individual fund level, Fund expenses were found to be reasonable relative to both Expense Group and Expense Universe benchmarks. Further, for certain Funds, 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 Fund. Based on this analysis, the independent fee consultant found that the combination of service quality/performance and expenses on these individual Funds and share classes were reasonable in light of performance trends, performance histories, and existence of performance fees on such Funds.

The Trustees considered the methodology used by Janus Capital and each 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.

The Trustees also reviewed management fees charged by Janus Capital and each subadviser to comparable separate account clients and to comparable non-affiliated funds subadvised by Janus Capital or by a 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 Funds having a similar strategy, the Trustees noted that, under the terms of the management agreements with the Funds, Janus Capital performs significant additional services for the Funds that it does not provide to those other clients, including administration services, oversight of the Funds' other service providers, trustee support, regulatory compliance and numerous other services, and that, in serving the Funds, Janus Capital assumes many legal risks that it does not assume in servicing its other clients. Moreover, they noted that the independent fee consultant found that: (1) the management fees Janus Capital charges to the 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 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 considered the fees for each Fund for its fiscal year ended in 2012, and noted the following with regard to each Fund's total expenses, net of applicable fee waivers:

Fixed-Income Funds and Money Market Funds

- For Janus Flexible Bond Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Global Bond Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus High-Yield Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Real Return Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Short-Term Bond Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Government Money Market Fund, the Trustees noted that the Fund's total expenses exceeded the peer group mean for both share classes. The Trustees considered that management fees for this Fund are higher than the peer group mean due to the Fund's management fee including other costs, such as custody and transfer agent services, while many funds in the peer group pay these expenses separately from their management fee. In addition, the Trustees considered that Janus Capital voluntarily waives one-half of its advisory fee.
- For Janus Money Market Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes. In addition, the Trustees considered that Janus Capital voluntarily waives one-half of its advisory fee.

Asset Allocation Funds

- For Janus Global Allocation Fund – Conservative, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Allocation Fund – Growth, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Global Allocation Fund – Moderate, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.

Alternative Funds

- For Janus Diversified Alternatives Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Global Real Estate Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

Value Funds

- For Perkins Global Value Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Perkins Large Cap Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed

to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.

- For Perkins Mid Cap Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Perkins Select Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Perkins Small Cap Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Perkins Value Plus Income Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

Mathematical Funds

- For INTECH Global Dividend Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For INTECH International Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For INTECH U.S. Core Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For INTECH U.S. Growth Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For INTECH U.S. Value Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.

Growth and Core Funds

- For Janus Balanced Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Contrarian Fund, the Trustees noted that the Fund's total expenses were below or the same as the peer group mean for all share classes.
- For Janus Enterprise Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Forty Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Growth and Income Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.

- For Janus Research Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable.
- For Janus Triton Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Twenty Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Venture Fund, the Trustees noted that the Fund's total expenses were below or the same as the peer group mean for all share classes.

Global and International Funds

- For Janus Asia Equity Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Emerging Markets Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Life Sciences Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Research Fund (formerly named Janus Worldwide Fund), the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Select Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Global Technology Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable.
- For Janus International Equity Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Overseas Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.

Preservation Series

- For Janus Preservation Series – Global, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Preservation Series – Growth, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

Janus Aspen Series

- For Janus Aspen Balanced Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Enterprise Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Flexible Bond Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Forty Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Global Allocation Portfolio-Moderate, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for both share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Aspen Global Research Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Global Technology Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen INTECH U.S. Low Volatility Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for its sole share class.

- For Janus Aspen Janus Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Overseas Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Perkins Mid Cap Value Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Preservation Series – Growth, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for both share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

The Trustees reviewed information on the profitability to Janus Capital and its affiliates of their relationships with each Fund, as well as an explanation of the methodology utilized in allocating various expenses of Janus Capital and its affiliates among the Funds 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 each subadviser receive adequate incentives to manage the Funds 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 Fund in relation to the services rendered was not unreasonable.

In this regard, the independent fee consultant found that, while assessing the reasonableness 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 Funds is reasonable.

The Trustees concluded that the management fees and other compensation payable by each Fund to Janus Capital and its affiliates, as well as the fees paid by Janus Capital to the subadvisers of subadvised Funds, 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 subadvisers charge to other clients, and, as applicable, the impact of fund performance on management fees payable by the Funds. The Trustees also concluded that the overall expense ratio of each Fund was reasonable, taking into account the size of the Fund, the quality of services provided by Janus Capital and any subadviser, the investment performance of the Fund, and any expense limitations agreed to or provided 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 Funds increase. They noted that, although many Funds pay advisory fees at a base fixed rate as a percentage of net assets, without any breakpoints, the base management fee rate paid by most of the Funds, before any adjustment for performance and after any contractual expense limitations, was below the mean management fee rate of the Fund's peer group identified by independent data providers; and, for those Funds whose expenses are being reduced by the contractual expense limitations of Janus Capital, Janus Capital is subsidizing the Funds because they have not reached adequate scale. Moreover, as the assets of many of the Funds have declined in the past few years, certain Funds 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 Funds that have caused the effective rate of advisory fees payable by such a Fund to vary depending on the investment performance of the Fund relative to its benchmark index over the measurement period; and a few Funds have fee schedules with breakpoints and reduced fee rates above certain asset levels. The Trustees also noted that the Funds 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 Funds. 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 Fund was reasonable and that the current rates of fees do reflect a sharing between Janus Capital and the Fund of any economies of scale that may be present at the current asset level of the Fund.

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 Fund investors are well-served by the fee levels and performance fee structures in place on the 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 Funds. They recognized that two affiliates of Janus Capital separately serve the Funds 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 Funds on their portfolio brokerage transactions to obtain proprietary and third-party research products and services benefiting the Fund 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 Fund. 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 Fund therefor, the Funds 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 Funds and that the Funds 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 the success of any Fund 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 Funds.

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 in the Management Commentary are just that: opinions. They are a reflection based on best judgment at the time this report was compiled, which was June 30, 2014. As the investing environment changes, so could opinions. These views are unique 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.

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 Barclays 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.

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.

C-0814-70660 109-24-81115 08-14

P I M C O

Semiannual Report

June 30, 2014

Your Global Investment Authority

PIMCO Variable Insurance Trust

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, 2014. On the following pages please find specific details as to the Portfolio's investment performance and a discussion of the factors that affected performance.

In contrast to the market reaction during the summer of 2013 in which the Federal Reserve's ("Fed") new "taper talk" caused significant market turmoil, over the past six months, investor risk appetite returned on better clarity regarding central bank policy and an easing of global geopolitical risks towards the latter part of the period. Global bond markets generally rallied (with yields lower and prices therefore higher) as central banks remained accommodative.

The outlook for the U.S. economy improved on steady though historically slow employment growth and renewed business investment activity during the reporting period. However, while the Fed noted in its June 2014 meeting that the U.S. economy had "rebounded", the central bank reiterated its view that the economy still had some distance to go to meet its employment and specific inflation targets. Investors became more comfortable with the idea that the Fed would keep its policy rate lower than historical norms during a recovery, leading to a flattening of the U.S. Treasury yield curve.

This sentiment was reinforced by a series of actions announced by the European Central Bank ("ECB") on June 5, 2014. ECB President Mario Draghi lowered the ECB's benchmark rate by 10 basis points, reduced its deposit rate into unprecedented negative territory to help mitigate potential deflationary forces (making the ECB the first major central bank to do so), opened a new liquidity channel to help encourage bank lending, and mentioned plans to begin a future quantitative easing asset purchase program. These measures reflect the ECB's decision to attempt to tackle the threat of deflation in the Eurozone amid slower-than-historical and expected economic growth. Consequently, yields on Spanish and Italian bonds ended the period closer to their ten-year U.S. Treasury counterparts.

Within Asia, Japan raised its consumption tax, leading to a decline in household spending and retail sales. China, also facing a more challenging growth outlook, launched a mini-stimulus program and continued to finely tune its monetary policies amid lingering concerns regarding shadow banking-related defaults.

Highlights of the financial markets during our six-month fiscal reporting period include:

- U.S. Treasuries, as represented by the Barclays U.S. Treasury Index, returned 2.72% over the reporting period. The U.S. Treasury yield curve flattened as the Fed signaled that it was in no hurry to start raising interest rates. As a result, investors continued pricing in low policy rates and lower long-term yields. The benchmark ten-year U.S. Treasury note yielded 2.53% at the end of the reporting period, down from 3.03% on December 31, 2013. The Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, returned 3.93% for the period.

- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Barclays U.S. TIPS Index, returned 5.83% over the reporting period. The asset class generally gained on supportive inflationary data and returning investor demand. U.S. TIPS outperformed nominal U.S. Treasuries as current and expected levels of inflation increased over the period. Higher heating costs during the winter and the conflict in Iraq towards the latter part of the period contributed to higher energy prices, which impacted near-term headline inflation, while increasing rent prices continued to contribute to core inflation. Inflation-linked bonds ("ILBs") also posted positive returns globally with emerging market ILBs showing significant strength. Diversified commodities, as represented by the Bloomberg Commodity Index Total Return, returned 7.08%.

- Agency mortgage-backed securities ("MBS"), as represented by the Barclays Agency Fixed-Rate MBS Index, returned 4.08% over the reporting period. Agency MBS outperformed like-duration U.S. Treasuries despite continued tapering of mortgage purchases by the Fed. Lack of new issuances was the primary driver of performance in the sector, as limited refinancing activity, slow housing turnover and winter weather-related weakness in much of the U.S. contributed to lower than expected mortgage originations. Non-Agency MBS continued to benefit from the ongoing recovery in the U.S. housing market, demand for spread assets, and limited new issue supply.

- U.S. investment grade credit, as measured by the Barclays U.S. Credit Index, returned 5.70% over the reporting period. The sector outperformed like-duration U.S. Treasuries as spreads narrowed. The high yield corporate bond sector also posted positive returns, benefiting from robust inflows and overall low market volatility. Spreads tightened in spite of falling U.S. Treasury yields, primarily due to improvements in global growth, solid corporate fundamentals and continued accommodative global central bank policy. Bank loans posted relatively healthy returns, despite headwinds in the form of lower government interest rates and diminishing retail demand as reflected by outflows from mutual funds during the second quarter of the period. While retail flows have reversed, issuance of collateralized loan obligations ("CLOs"), which represents another large source of demand, provided a steady bid for loans and remained active during the period.
- Emerging Markets ("EM") external debt, as measured by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned 9.10% over the reporting period as spreads for EM external debt narrowed. EM local bonds, as represented by the JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged), returned 5.99% over the period. EM external debt outperformed EM local debt, though local debt rebounded as investors sought the relatively high yields of the asset class. Inflows have returned across EM asset classes due to attractive valuations, modest relief over Chinese growth concerns, market-friendly election results in EM countries, and renewed appetite for higher yields.
- Developed market equities posted positive returns as investors embraced higher-risk assets due to better clarity on central bank policy and an easing of geopolitical tensions. U.S. equities, as measured by the S&P 500 Index, returned 7.14%. Global equities, as represented by the MSCI All Country World Index Net USD and MSCI World Index, returned 6.18% for both indexes. EM equities, as represented by the MSCI Emerging Markets Index (Net Dividends in USD), returned 6.14%.

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 24, 2014

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. A number of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions). Accordingly, changes in interest rates can be sudden, and there is no guarantee that Fund management will anticipate such movement.

As of the date of this report, interest rates in the U.S. are at or near historically low levels. As such, bond funds may currently face an increased exposure to the risks associated with a rising interest rate environment. This is especially true since the Federal Reserve Board has begun tapering its quantitative easing program. Further, while the U.S. bond market has steadily grown over the past three decades, dealer inventories of corporate bonds have remained relatively stagnant. As a result, there has been a significant reduction in the ability of dealers to "make markets." All of the factors mentioned above, individually or collectively, could lead to increased volatility and/or lower liquidity in the fixed income markets, which could result in losses to the Portfolio.

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. If the performance of the Portfolio were to be negatively impacted by rising interest rates, the Portfolio could face increased redemptions by its shareholders, which could further reduce the value of the Portfolio.

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, call 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, which translates into heightened volatility in the Fund. 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. For example, if the Portfolio invests in emerging market debt, it may face increased exposure to interest rate, liquidity, volatility, and redemption risk due to the specific economic, political, geographical, or legal background of the foreign issuer.

High-yield bonds typically have a lower credit rating than other bonds. Lower-rated bonds generally involve a greater risk to principal than higher-rated bonds. Further, markets for lower-rated bonds are typically less liquid than for higher-rated bonds, and public information is usually less abundant in such markets. Thus, high yield investments increase the chance that the Portfolio will lose money. The credit quality of a particular security or group of securities does not ensure the stability or safety of the overall portfolio. Mortgage- and Asset-Backed Securities represent ownership interests in "pools" of mortgages or other assets such as consumer loans or receivables. As a general matter, Mortgage- and Asset-Backed Securities are subject to interest rate risk, extension risk, prepayment risk, and credit risk. These risks largely stem from the fact that returns on Mortgage- and Asset-Backed Securities depend on the ability of the underlying assets to generate cash flow.

On the Portfolio Summary page in this 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 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, 2014 to June 30, 2014.

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 = $8.60), 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

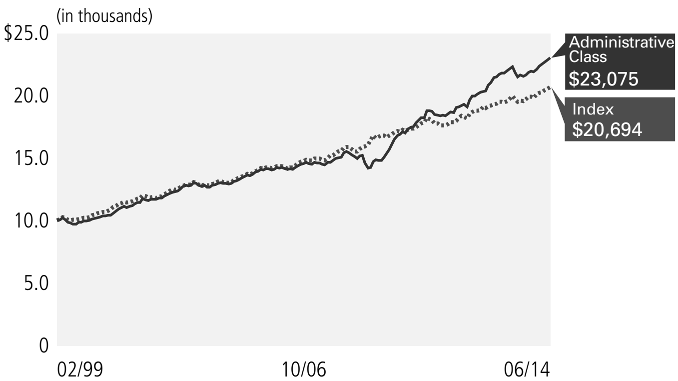
The information in the table under the heading "Hypothetical (5% return before expenses)" provides information about hypothetical account values and hypothetical expenses based on the Portfolio's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio's 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 (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, 2014



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Allocation Breakdown†

Short-Term Instruments‡	25.1%
United States	20.6%
Spain	13.4%
Italy	8.9%
United Kingdom	7.9%
France	5.5%
Other	18.6%

† % of Investments, at value as of 06/30/14

‡ Includes Central Funds used for Cash Management Purposes

Average Annual Total Return for the period ended June 30, 2014

	6 Months*	1 Year	5 Years	10 Years	Class Inception (02/16/1999)
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Administrative Class	5.18%	7.21%	7.99%	5.96%	5.58%
JPMorgan GBI Global ex-US Index Hedged in USD±	4.38%	5.94%	4.23%	4.75%	4.84%

All Portfolio returns are net of fees and expenses.

* Cumulative return.

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 0.92% 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	Hypothetical (5% return before expenses)
Beginning Account Value (01/01/14)	$1,000.00	$1,000.00
Ending Account Value (06/30/14)	$1,051.80	$1,020.23
Expenses Paid During Period†	$ 4.68	$ 4.61
Net Annualized Expense Ratio	0.92%	0.92%

† 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. The Portfolio will normally limit its foreign currency exposure (from non-U.S. dollar-denominated securities or currencies) to 20% of its assets.

» Portfolios managed to U.S. dollar-hedged benchmarks are hedged to the U.S. dollar. On a total return basis, portfolios that were hedged to the U.S. dollar generally underperformed unhedged portfolios over the reporting period, as the U.S. dollar underperformed most major currencies.

» Positions in local bonds in Brazil and Mexico contributed to performance as local sovereign yields in these countries fell during the reporting period.

» An overweight to duration (or sensitivity to changes in market interest rates) in Spain contributed to relative performance as Spanish sovereign spreads over German Bunds tightened during the reporting period.

» Positions in non-Agency mortgage-backed securities ("MBS") and European residential MBS contributed to performance as prices of these securities generally rose during the reporting period.

» An underweight duration positioning in the U.S. and the U.K. detracted from relative performance as interest rates in these countries fell during the reporting period.

» An underweight duration positioning in Eurozone core interest rates detracted from relative performance as Euro-swap rates fell during the reporting period.

» An underweight to the Japanese yen detracted from relative performance as this currency appreciated versus the U.S. dollar during the reporting period.

Financial Highlights PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

Selected Per Share Data for the Year or Period Ended:	06/30/2014+	12/31/2013	12/31/2012	12/31/2011	12/31/2010	12/31/2009
Administrative Class						
Net asset value beginning of year or period	$ 10.05	$ 10.80	$ 10.33	$ 9.98	$ 9.64	$ 9.58
Net investment income [(a)]	0.09	0.22	0.26	0.23	0.21	0.37
Net realized/unrealized gain (loss)	0.43	(0.17)	0.84	0.43	0.60	1.10
Total income from investment operations	0.52	0.05	1.10	0.66	0.81	1.47
Dividends from net investment income	(0.10)	(0.20)	(0.24)	(0.21)	(0.19)	(0.32)
Distributions from net realized capital gains	0.00	(0.60)	(0.39)	(0.10)	(0.28)	(1.07)
Tax basis return of capital	0.00	0.00	0.00	0.00	0.00	(0.02)
Total distributions	(0.10)	(0.80)	(0.63)	(0.31)	(0.47)	(1.41)
Net asset value end of year or period	$ 10.47	$ 10.05	$ 10.80	$ 10.33	$ 9.98	$ 9.64
Total return	5.18%	0.50%	10.85%	6.76%	8.49%	15.60%
Net assets end of year or period (000s)	$ 74,104	$ 66,176	$ 78,497	$ 78,493	$ 79,591	$ 69,356
Ratio of expenses to average net assets	0.92%*	0.92%	0.94%	0.91%	0.90%	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	1.86%*	2.03%	2.40%	2.30%	2.06%	3.67%
Portfolio turnover rate	54%**	127%**	356%**	218%**	130%**	459%

+ 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, 2014
Assets:	
Investments, at value	
Investments in securities*	$ 75,462
Investments in Affiliates	8,925
Financial Derivative Instruments	
Exchange-traded or centrally cleared	25
Over the counter	582
Deposits with counterparty	855
Foreign currency, at value	645
Receivable for investments sold	6,566
Receivable for Portfolio shares sold	613
Interest and dividends receivable	553
Dividends receivable from Affiliates	1
	94,227
Liabilities:	
Borrowings & Other Financing Transactions	
Payable for reverse repurchase agreements	$ 729
Payable for short sales	3,241
Financial Derivative Instruments	
Exchange-traded or centrally cleared	63
Over the counter	1,011
Payable for investments purchased	8,398
Payable for investments in Affiliates purchased	1
Deposits from counterparty	219
Payable for Portfolio shares redeemed	4
Overdraft due to custodian	4
Accrued investment advisory fees	15
Accrued supervisory and administrative fees	31
Accrued distribution fees	1
Accrued servicing fees	9
	13,726
Net Assets	$ 80,501
Net Assets Consist of:	
Paid in capital	$ 77,520
(Overdistributed) net investment income	(516)
Accumulated undistributed net realized gain	809
Net unrealized appreciation	2,688
	$ 80,501
Net Assets:	
Institutional Class	$ 137
Administrative Class	74,104
Advisor Class	6,260
Shares Issued and Outstanding:	
Institutional Class	13
Administrative Class	7,076
Advisor Class	598
Net Asset Value and Redemption Price Per Share Outstanding:	
Institutional Class	$ 10.47
Administrative Class	10.47
Advisor Class	10.47
Cost of Investments in Securities	$ 72,843
Cost of Investments in Affiliates	$ 8,924
Cost of Foreign Currency Held	$ 643
Proceeds Received on Short Sales	$ 3,235
Cost or Premiums of Financial Derivative Instruments, net	$ (307)
* Includes repurchase agreements of:	$ 763

Statement of Operations PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Unaudited)

(Amounts in thousands)	Six Months Ended June 30, 2014
Investment Income:	
Interest	$ 993
Dividends	9
Dividends from Investments in Affiliates	7
Total Income	1,009
Expenses:	
Investment advisory fees	90
Supervisory and administrative fees	181
Servicing fees - Administrative Class	54
Distribution and/or servicing fees - Advisor Class	1
Interest expense	6
Total Expenses	332
Net Investment Income	677
Net Realized Gain (Loss):	
Investments in securities	702
Investments in Affiliates	2
Exchange-traded or centrally cleared financial derivative instruments	(65)
Over the counter financial derivative instruments	(253)
Foreign currency	(112)
Net Realized Gain	274
Net Change in Unrealized Appreciation:	
Investments in securities	2,079
Investments in Affiliates	1
Exchange-traded or centrally cleared financial derivative instruments	295
Over the counter financial derivative instruments	276
Foreign currency assets and liabilities	73
Net Change in Unrealized Appreciation	2,724
Net Gain	2,998
Net Increase in Net Assets Resulting from Operations	$ 3,675

Statements of Changes in Net Assets PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Amounts in thousands)	Six Months Ended June 30, 2014 (Unaudited)	Year Ended December 31, 2013
Increase (Decrease) in Net Assets from:		
Operations:		
Net investment income	$ 677	$ 1,445
Net realized gain	274	938
Net change in unrealized appreciation (depreciation)	2,724	(2,045)
Net increase resulting from operations	3,675	338
Distributions to Shareholders:		
From net investment income		
Institutional Class	(0)^	(0)^
Administrative Class	(695)	(1,328)
Advisor Class	(7)	0
From net realized capital gains		
Institutional Class	0	(1)
Administrative Class	0	(3,817)
Advisor Class	0	0
Total Distributions	(702)	(5,146)
Portfolio Share Transactions:		
Net increase (decrease) resulting from Portfolio share transactions**	11,330	(7,512)
Total Increase (Decrease) in Net Assets	14,303	(12,320)
Net Assets:		
Beginning of period	66,198	78,518
End of period*	$ 80,501	$ 66,198
* Including (overdistributed) net investment income of:	$ (516)	$ (491)

**See Note 12 in the Notes to Financial Statements.

^ Amount is less than $500.

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
INVESTMENTS IN SECURITIES 93.7%			
AUSTRALIA 2.8%			
CORPORATE BONDS & NOTES 2.5%			
Australia & New Zealand Banking Group Ltd.			
1.000% due 10/06/2016		$ 700	$ 705
Commonwealth Bank of Australia			
3.492% due 08/13/2014		500	502
Westpac Banking Corp.			
1.250% due 12/14/2018		800	796
			2,003
MORTGAGE-BACKED SECURITIES 0.1%			
Puma Finance Ltd.			
3.075% due 08/22/2037	AUD	53	49
Torrens Trust			
3.080% due 10/19/2038		64	60
			109
SOVEREIGN ISSUES 0.2%			
New South Wales Treasury Corp. CPI Linked Bond			
2.750% due 11/20/2025		100	129
Total Australia (Cost $2,237)			**2,241**
BRAZIL 0.6%			
CORPORATE BONDS & NOTES 0.6%			
Petrobras Global Finance BV			
3.112% due 03/17/2020		$ 200	206
3.250% due 03/17/2017		300	308
Total Brazil (Cost $500)			**514**
CANADA 1.5%			
CORPORATE BONDS & NOTES 0.6%			
Toronto-Dominion Bank			
0.671% due 07/02/2019 (b)		$ 500	500
SOVEREIGN ISSUES 0.9%			
Province of British Columbia			
4.300% due 06/18/2042	CAD	100	106
Province of Ontario			
1.900% due 09/08/2017		500	474
6.200% due 06/02/2031		100	125
			705
Total Canada (Cost $1,207)			**1,205**
CAYMAN ISLANDS 0.3%			
ASSET-BACKED SECURITIES 0.3%			
Gallatin CLO Ltd.			
1.432% due 07/15/2023		$ 200	201
Stanfield Bristol CLO Ltd.			
0.484% due 10/15/2019		27	27
Total Cayman Islands (Cost $227)			**228**
CHINA 0.3%			
CORPORATE BONDS & NOTES 0.3%			
CNOOC Curtis Funding Pty. Ltd.			
4.500% due 10/03/2023		$ 200	210
Total China (Cost $203)			**210**
DENMARK 0.0%			
CORPORATE BONDS & NOTES 0.0%			
Nykredit Realkredit A/S			
6.000% due 10/01/2029	DKK	16	$ 3
Total Denmark (Cost $2)			**3**
FRANCE 5.8%			
CORPORATE BONDS & NOTES 0.9%			
BPCE S.A.			
0.862% due 06/17/2017		$ 300	300
Credit Agricole S.A.			
0.775% due 06/12/2017		400	400
			700
SOVEREIGN ISSUES 4.9%			
Caisse d'Amortissement de la Dette Sociale			
1.125% due 01/30/2017		200	202
3.375% due 03/20/2024		400	415
3.500% due 07/01/2014		300	300
France Government Bond			
1.000% due 11/25/2018	EUR	900	1,263
3.250% due 05/25/2045		200	305
4.000% due 10/25/2038		200	344
4.500% due 04/25/2041		600	1,120
			3,949
Total France (Cost $4,334)			**4,649**
GERMANY 2.4%			
CORPORATE BONDS & NOTES 0.5%			
Landwirtschaftliche Rentenbank			
4.250% due 01/24/2023	AUD	400	382
SOVEREIGN ISSUES 1.9%			
Republic of Germany			
0.100% due 04/15/2023 (d)	EUR	104	147
2.500% due 08/15/2046		200	293
4.000% due 01/04/2037		600	1,096
			1,536
Total Germany (Cost $1,808)			**1,918**
HONG KONG 0.3%			
CORPORATE BONDS & NOTES 0.3%			
CNOOC Finance Ltd.			
3.875% due 05/02/2022		$ 200	204
Total Hong Kong (Cost $196)			**204**
IRELAND 0.2%			
ASSET-BACKED SECURITIES 0.2%			
Race Point CLO Ltd.			
0.486% due 04/15/2020		$ 159	158
Total Ireland (Cost $157)			**158**
ITALY 9.2%			
ASSET-BACKED SECURITIES 0.5%			
Alba SPV SRL			
1.827% due 04/20/2040	EUR	188	258
Berica Asset-Backed Security SRL			
0.509% due 12/31/2055		128	173
			431
CORPORATE BONDS & NOTES 0.7%			
Banca Monte dei Paschi di Siena SpA			
5.000% due 02/09/2019	EUR	100	$ 154
Banco Popolare SC			
3.250% due 09/30/2016		300	424
			578
MORTGAGE-BACKED SECURITIES 1.1%			
Berica Residential MBS SRL			
0.616% due 03/31/2048		243	320
Claris ABS			
0.794% due 10/31/2060		287	385
Giovecca Mortgages SRL			
0.928% due 04/23/2048		161	218
			923
SOVEREIGN ISSUES 6.9%			
Italy Buoni Poliennali Del Tesoro			
2.350% due 09/15/2024 (d)		101	148
4.500% due 05/01/2023		1,000	1,576
4.500% due 03/01/2024		300	473
4.750% due 09/01/2021		200	322
4.750% due 09/01/2028		500	796
5.500% due 09/01/2022		400	673
5.500% due 11/01/2022		700	1,176
Italy Government International Bond			
6.000% due 08/04/2028	GBP	200	392
			5,556
Total Italy (Cost $7,139)			**7,488**
LUXEMBOURG 0.8%			
CORPORATE BONDS & NOTES 0.8%			
Fiat Finance & Trade S.A.			
6.125% due 07/08/2014	EUR	100	137
Gazprom OAO Via Gaz Capital S.A.			
9.250% due 04/23/2019		$ 400	488
Total Luxembourg (Cost $616)			**625**
MEXICO 3.1%			
SOVEREIGN ISSUES 3.1%			
Mexico Government International Bond			
7.500% due 06/03/2027	MXN	8,500	745
7.750% due 05/29/2031		9,610	849
7.750% due 11/23/2034		1,600	142
9.500% due 12/18/2014		8,000	636
10.000% due 12/05/2024		1,000	103
Total Mexico (Cost $2,446)			**2,475**
NETHERLANDS 0.4%			
ASSET-BACKED SECURITIES 0.4%			
Cadogan Square CLO BV			
0.627% due 01/17/2023	EUR	212	286
Total Netherlands (Cost $277)			**286**
NEW ZEALAND 2.1%			
SOVEREIGN ISSUES 2.1%			
New Zealand Government Bond			
5.000% due 03/15/2019	NZD	300	273
6.000% due 05/15/2021		1,100	1,062

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
New Zealand Government CPI Linked Bond		
2.000% due 09/20/2025	NZD 400	$ 340
Total New Zealand (Cost $1,534)		**1,675**
NORWAY 0.5%		
SOVEREIGN ISSUES 0.5%		
Kommunalbanken A/S		
0.614% due 03/27/2017	$ 400	403
Total Norway (Cost $400)		**403**
SLOVENIA 2.0%		
SOVEREIGN ISSUES 2.0%		
Slovenia Government International Bond		
4.125% due 02/18/2019	$ 200	211
4.700% due 11/01/2016	EUR 400	594
5.250% due 02/18/2024	$ 400	432
5.850% due 05/10/2023	300	338
Total Slovenia (Cost $1,470)		**1,575**
SPAIN 14.0%		
CORPORATE BONDS & NOTES 0.7%		
Banco Popular Espanol S.A.		
3.500% due 09/11/2017	EUR 100	147
4.125% due 03/30/2017	300	445
		592
SOVEREIGN ISSUES 13.3%		
Spain Government International Bond		
2.750% due 04/30/2019	1,200	1,755
3.750% due 10/31/2018	1,200	1,821
4.400% due 10/31/2023	600	945
5.150% due 10/31/2028	200	331
5.400% due 01/31/2023	2,800	4,713
5.850% due 01/31/2022	400	690
Xunta de Galicia		
6.131% due 04/03/2018	300	482
		10,737
Total Spain (Cost $10,623)		**11,329**
SUPRANATIONAL 1.7%		
CORPORATE BONDS & NOTES 1.7%		
European Investment Bank		
6.000% due 08/06/2020	AUD 700	741
Inter-American Development Bank		
6.000% due 02/26/2021	600	639
Total Supranational (Cost $1,462)		**1,380**
SWEDEN 0.8%		
CORPORATE BONDS & NOTES 0.5%		
Skandinaviska Enskilda Banken AB		
3.000% due 06/20/2018	SEK 1,500	239
Swedbank Hypotek AB		
3.750% due 12/20/2017	1,100	179
		418
SOVEREIGN ISSUES 0.3%		
Sweden Government International Bond		
4.250% due 03/12/2019	1,200	207
Total Sweden (Cost $615)		**625**

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
UNITED KINGDOM 8.3%		
ASSET-BACKED SECURITIES 0.6%		
Motor PLC		
0.632% due 08/25/2021	$ 455	$ 455
CORPORATE BONDS & NOTES 1.0%		
Northern Rock Asset Management PLC		
5.625% due 06/22/2017	700	786
MORTGAGE-BACKED SECURITIES 2.1%		
Eurosail PLC		
0.694% due 06/10/2044	GBP 59	98
Fosse Master Issuer PLC		
2.628% due 10/18/2054	200	348
Granite Master Issuer PLC		
0.493% due 12/20/2054	$ 100	99
Mansard Mortgages PLC		
1.208% due 12/15/2049	GBP 304	514
Newgate Funding PLC		
1.558% due 12/15/2050	400	669
		1,728
SOVEREIGN ISSUES 4.6%		
United Kingdom Gilt		
3.250% due 01/22/2044	800	1,325
4.250% due 06/07/2032	400	780
4.250% due 03/07/2036	100	195
4.250% due 12/07/2040	400	788
4.500% due 09/07/2034	300	605
		3,693
Total United Kingdom (Cost $5,959)		**6,662**
UNITED STATES 21.5%		
ASSET-BACKED SECURITIES 1.2%		
Amortizing Residential Collateral Trust		
0.732% due 07/25/2032	$ 1	1
0.852% due 10/25/2031	2	2
Amresco Residential Securities Mortgage Loan Trust		
1.092% due 06/25/2029	1	1
Bear Stearns Asset-Backed Securities Trust		
0.220% due 12/25/2036	11	11
Credit Suisse First Boston Mortgage Securities Corp.		
0.770% due 01/25/2032	1	1
First Alliance Mortgage Loan Trust		
0.152% due 12/20/2027	1	1
Home Equity Mortgage Loan Asset-Backed Trust		
0.602% due 08/25/2035	198	196
Long Beach Mortgage Loan Trust		
0.712% due 10/25/2034	12	11
Morgan Stanley Mortgage Loan Trust		
5.919% due 09/25/2046 ^	217	126
Residential Asset Securities Corp. Trust		
0.652% due 07/25/2032 ^	2	2
SLM Student Loan Trust		
0.729% due 10/25/2017	147	147
1.729% due 04/25/2023	485	502
Structured Asset Securities Corp. Mortgage Pass-Through Certificates		
0.732% due 01/25/2033	2	2
		1,003

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
CORPORATE BONDS & NOTES 4.0%		
Ally Financial, Inc.		
2.750% due 01/30/2017	$ 200	$ 203
2.908% due 07/18/2016	100	103
4.625% due 06/26/2015	100	103
BA Covered Bond Issuer		
4.250% due 08/03/2017	EUR 200	302
International Lease Finance Corp.		
6.750% due 09/01/2016	$ 200	222
JPMorgan Chase & Co.		
0.779% due 04/25/2018	400	400
1.350% due 02/15/2017	300	301
Lehman Brothers Holdings, Inc.		
6.875% due 05/02/2018 ^	200	40
Sprint Communications, Inc.		
8.375% due 08/15/2017	400	469
Universal Health Services, Inc.		
7.125% due 06/30/2016	1,000	1,119
		3,262
MORTGAGE-BACKED SECURITIES 5.4%		
American Home Mortgage Investment Trust		
1.822% due 09/25/2045	83	80
Banc of America Mortgage Trust		
2.694% due 02/25/2036 ^	71	61
Bear Stearns Adjustable Rate Mortgage Trust		
2.475% due 08/25/2033	4	4
2.528% due 03/25/2035	7	7
2.580% due 03/25/2035	71	72
5.151% due 08/25/2035	2	2
Bear Stearns Alt-A Trust		
0.312% due 02/25/2034	86	80
2.562% due 11/25/2035 ^	55	43
2.655% due 03/25/2036 ^	113	85
2.699% due 08/25/2036 ^	66	51
2.790% due 09/25/2035	60	53
Bear Stearns Structured Products, Inc.		
2.488% due 12/26/2046	50	35
Citigroup Commercial Mortgage Trust		
0.905% due 06/15/2033	400	401
Citigroup Mortgage Loan Trust, Inc.		
2.200% due 09/25/2035	13	13
2.280% due 09/25/2035	22	22
Countrywide Alternative Loan Trust		
0.363% due 03/20/2046	113	88
0.432% due 02/25/2037	97	78
1.123% due 12/25/2035	136	107
1.623% due 11/25/2035	23	19
5.250% due 06/25/2035 ^	18	17
Countrywide Home Loan Mortgage Pass-Through Trust		
0.382% due 05/25/2035	46	39
0.472% due 03/25/2035	101	79
0.482% due 02/25/2035	11	11
2.498% due 11/25/2034	15	14
2.747% due 08/25/2034	46	41
Credit Suisse First Boston Mortgage Securities Corp.		
6.500% due 04/25/2033	1	1
CSMC Mortgage-Backed Trust		
5.863% due 02/25/2037 ^	235	129
DBUBS Mortgage Trust		
0.320% due 11/10/2046 (a)	400	7
1.551% due 11/10/2046 (a)	941	28
GSR Mortgage Loan Trust		
2.657% due 01/25/2036 ^	131	124
HarborView Mortgage Loan Trust		
2.491% due 05/19/2033	7	7

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
IndyMac Mortgage Loan Trust		
0.392% due 07/25/2035	$ 40	$ 38
JPMorgan Mortgage Trust		
2.179% due 07/27/2037	176	152
2.578% due 02/25/2036 ^	78	69
Mellon Residential Funding Corp. Mortgage Pass-Through Trust		
0.592% due 12/15/2030	11	11
Merrill Lynch Mortgage Investors Trust		
1.572% due 10/25/2035	20	19
Morgan Stanley Bank of America Merrill Lynch Trust		
1.634% due 12/15/2048 (a)	1,276	85
Morgan Stanley Mortgage Loan Trust		
2.177% due 06/25/2036	85	81
Residential Accredit Loans, Inc. Trust		
0.302% due 02/25/2047	48	29
0.332% due 06/25/2046	397	185
0.362% due 04/25/2046	109	56
Structured Adjustable Rate Mortgage Loan Trust		
2.458% due 04/25/2034	13	14
Structured Asset Mortgage Investments Trust		
0.362% due 05/25/2046	19	14
0.372% due 05/25/2036	141	106
0.372% due 09/25/2047	200	162
0.382% due 05/25/2045	35	32
0.445% due 07/19/2034	6	6
0.815% due 09/19/2032	4	4
0.855% due 03/19/2034	10	10
1.623% due 08/25/2047	59	53
TBW Mortgage-Backed Trust		
5.970% due 09/25/2036	189	41
Thornburg Mortgage Securities Trust		
1.402% due 06/25/2047	28	25
5.750% due 06/25/2047	77	71
Wachovia Mortgage Loan Trust LLC		
2.611% due 10/20/2035 ^	263	253
WaMu Mortgage Pass-Through Certificates Trust		
0.462% due 01/25/2045	191	189
1.103% due 06/25/2046	67	67
1.123% due 02/25/2046	150	143
1.932% due 02/27/2034	9	9
2.142% due 03/25/2033	19	19
2.410% due 03/25/2035	119	120
Washington Mutual Mortgage Pass-Through Certificates Trust		
1.063% due 07/25/2046 ^	41	25
Wells Fargo Mortgage-Backed Securities Trust		
2.612% due 03/25/2036	148	144
2.612% due 07/25/2036 ^	106	104
2.615% due 03/25/2035	156	158
2.615% due 06/25/2035	48	49
2.618% due 04/25/2036	15	15
		4,356
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	252
Pasadena Public Financing Authority, California Revenue Bonds, (BABs), Series 2010		
7.148% due 03/01/2043	$ 100	$ 129
		381

	SHARES	MARKET VALUE (000S)
PREFERRED SECURITIES 0.0%		
SLM Corp. CPI Linked Security		
3.562% due 01/16/2018	900	22

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
U.S. GOVERNMENT AGENCIES 8.9%		
Fannie Mae		
0.272% due 03/25/2034	$ 11	11
0.302% due 08/25/2034	8	7
0.502% due 09/25/2042	26	26
0.582% due 11/25/2040	175	175
0.602% due 11/25/2040	221	222
0.732% due 06/25/2041	448	451
1.324% due 10/01/2044	27	28
2.012% due 12/01/2034	9	9
2.269% due 05/25/2035	24	25
2.485% due 11/01/2034	68	73
3.500% due 11/01/2021 - 07/01/2029	3,096	3,280
5.480% due 07/01/2018	200	221
6.000% due 07/25/2044	17	19
Freddie Mac		
0.652% due 12/15/2032	16	16
0.752% due 12/15/2037	51	51
1.324% due 10/25/2044	76	77
2.250% due 03/01/2035	15	15
2.315% due 04/01/2035	142	151
2.357% due 02/01/2029	6	7
Ginnie Mae		
1.625% due 04/20/2028 - 06/20/2030	3	3
2.000% due 04/20/2030 - 05/20/2030	2	2
NCUA Guaranteed Notes		
0.622% due 11/05/2020	1,474	1,479
0.712% due 12/08/2020	360	362
Tennessee Valley Authority		
6.250% due 12/15/2017	400	467
		7,177
U.S. TREASURY OBLIGATIONS 1.5%		
U.S. Treasury Bonds		
3.750% due 11/15/2043	200	216
U.S. Treasury Inflation Protected Securities (d)		
0.125% due 01/15/2023 (f)(h)	822	819
2.375% due 01/15/2025 (h)	126	152
		1,187
Total United States (Cost $17,238)		**17,388**

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
SHORT-TERM INSTRUMENTS 15.1%		
CERTIFICATES OF DEPOSIT 2.1%		
China Construction Bank Corp.		
1.000% due 07/28/2014	$ 800	$ 800
Credit Suisse		
0.437% due 01/12/2015	100	100
0.603% due 01/28/2016	400	400
Intesa Sanpaolo SpA		
1.608% due 04/11/2016	300	303
1.650% due 04/07/2015	100	100
		1,703
REPURCHASE AGREEMENTS (e) 0.9%		
		763
GREECE TREASURY BILLS 0.3%		
1.821% due 09/19/2014	EUR 200	273
MEXICO TREASURY BILLS 11.5%		
3.390% due 07/10/2014 - 02/05/2015 (c)	MXN 121,000	9,226
U.S. TREASURY BILLS 0.3%		
0.051% due 10/16/2014 (h)	$ 256	256
Total Short-Term Instruments (Cost $12,193)		**12,221**
Total Investments in Securities (Cost $72,843)		**75,462**

	SHARES	MARKET VALUE (000S)
INVESTMENTS IN AFFILIATES 11.1%		
SHORT-TERM INSTRUMENTS 11.1%		
CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES 11.1%		
PIMCO Short-Term Floating NAV Portfolio	1,673	17
PIMCO Short-Term Floating NAV Portfolio III	891,529	8,908
Total Short-Term Instruments (Cost $8,924)		**8,925**
Total Investments in Affiliates (Cost $8,924)		**8,925**
Total Investments 104.8% (Cost $81,767)		**$ 84,387**
Financial Derivative Instruments (g)(i) (0.5%) (Cost or Premiums, net $(307))		**(467)**
Other Assets and Liabilities, net (4.3%)		**(3,419)**
Net Assets 100.0%		**$ 80,501**

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) When-issued security.

(c) Coupon represents a weighted average yield to maturity.

(d) Principal amount of security is adjusted for inflation.

BORROWINGS AND OTHER FINANCING TRANSACTIONS

(e) REPURCHASE AGREEMENTS:

Counterparty	Lending Rate	Settlement Date	Maturity Date	Principal Amount	Collateralized By	Collateral Received, at Value	Repurchase Agreements, at Value	Repurchase Agreement Proceeds to be Received [1]
SSB	0.000%	06/30/2014	07/01/2014	$ 763	Freddie Mac 2.000% due 01/30/2023	$ (782)	$ 763	$ 763
Total Repurchase Agreements						**$ (782)**	**$ 763**	**$ 763**

[1] Includes accrued interest.

REVERSE REPURCHASE AGREEMENTS:

Counterparty	Borrowing Rate	Borrowing Date	Maturity Date	Amount Borrowed [2]	Payable for Reverse Repurchase Agreements
BOS	0.140%	05/29/2014	07/14/2014	$ (729)	$ (729)
Total Reverse Repurchase Agreements					**$ (729)**

[2] As of June 30, 2014, there were no open sale-buyback transactions. The average amount of borrowings outstanding during the period ended June 30, 2014 was $2,611 at a weighted average interest rate of 0.484%.

SHORT SALES:

Counterparty	Description	Coupon	Maturity Date	Principal Amount	Proceeds	Payable for Short Sales
FOB	Fannie Mae	4.500%	08/01/2044	$ 3,000	$ (3,235)	$ (3,241)
Total Short Sales					**$ (3,235)**	**$ (3,241)**

BORROWINGS AND OTHER FINANCING TRANSACTIONS SUMMARY

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, 2014:

(f) Securities with an aggregate market value of $730 have been pledged as collateral under the terms of the following master agreements as of June 30, 2014.

Counterparty	Repurchase Agreement Proceeds to be Received	Payable for Reverse Repurchase Agreements	Payable for Sale-Buyback Transactions	Payable for Short Sales	Total Borrowings and Other Financing Transactions	Collateral (Received)/Pledged	Net Exposure [3]
Global/Master Repurchase Agreement							
BOS	$ 0	$ (729)	$ 0	$ 0	$ (729)	$ 730	$ 1
SSB	763	0	0	0	763	(782)	(19)
Master Securities Forward Transaction Agreement							
FOB	0	0	0	(3,241)	(3,241)	0	(3,241)
Total Borrowings and Other Financing Transactions	**$ 763**	**$ (729)**	**$ 0**	**$ (3,241)**			

[3] Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. 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.

(g) FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED

FUTURES CONTRACTS:

Description	Type	Expiration Month	# of Contracts	Unrealized Appreciation/ (Depreciation)	Variation Margin	
					Asset	Liability
3-Month Euribor December Futures	Long	12/2014	5	$ 3	$ 0	$ 0
3-Month Euribor September Futures	Long	09/2014	7	3	0	0
10-Year Deliverable Interest Rate Swap September Futures	Short	09/2014	55	(52)	0	(11)
90-Day Eurodollar December Futures	Long	12/2014	49	17	0	0
90-Day Eurodollar September Futures	Long	09/2014	57	11	0	0
Australia Government 3-Year Bond September Futures	Short	09/2014	14	(8)	0	(1)
Australia Government 10-Year Bond September Futures	Short	09/2014	8	(19)	0	(4)

Description	Type	Expiration Month	# of Contracts	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
Call Options Strike @ EUR 147.500 on Euro-Bund 10-Year Bond August Futures	Short	07/2014	7	$ 1	$ 1	$ 0
Call Options Strike @ EUR 148.000 on Euro-Bund 10-Year Bond August Futures	Short	07/2014	5	0	0	0
Call Options Strike @ EUR 99.500 on 3-Month Euribor December Futures	Short	12/2014	8	(4)	0	0
Canada Government 10-Year Bond September Futures	Short	09/2014	16	(18)	3	(2)
Euro-Bobl September Futures	Long	09/2014	6	4	1	(1)
Euro-BTP Italy Government Bond September Futures	Long	09/2014	44	133	1	(10)
Euro-Bund 10-Year Bond September Futures	Long	09/2014	19	61	2	(6)
Put Options Strike @ EUR 99.500 on 3-Month Euribor December Futures	Short	12/2014	8	7	0	0
U.S. Treasury 5-Year Note September Futures	Short	09/2014	10	(1)	0	(1)
U.S. Treasury 10-Year Note September Futures	Short	09/2014	43	(27)	0	(3)
U.S. Treasury 30-Year Bond September Futures	Short	09/2014	6	(6)	0	(2)
United Kingdom 90-Day LIBOR Sterling Interest Rate September Futures	Short	09/2015	34	13	2	0
United Kingdom Long Gilt September Futures	Long	09/2014	2	1	0	(1)
Total Futures Contracts				**$ 119**	**$ 10**	**$ (42)**

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CREDIT INDICES - SELL PROTECTION (1)

Index/Tranches	Fixed Deal Receive Rate	Maturity Date	Notional Amount (2)	Market Value (3)	Unrealized Appreciation	Variation Margin Asset	Variation Margin Liability
CDX.IG-22 5-Year Index	1.000%	06/20/2019	$ 400	$ 8	$ 1	$ 0	$ 0

(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) 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.

(3) 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 indices' 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	Notional Amount	Market Value	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
Receive	3-Month USD-LIBOR	0.750%	12/17/2016	$ 2,600	$ 7	$ (2)	$ 0	$ (1)
Receive	3-Month USD-LIBOR	1.250%	03/18/2017	3,700	(11)	(9)	0	(1)
Receive	3-Month USD-LIBOR	1.250%	06/17/2017	6,600	9	(8)	0	(3)
Receive	3-Month USD-LIBOR	2.500%	06/18/2021	5,900	(136)	(104)	0	(6)
Pay	3-Month USD-LIBOR	3.000%	06/20/2023	2,800	(59)	97	3	0
Receive	3-Month USD-LIBOR	3.000%	12/18/2023	200	(8)	(7)	0	0
Pay	3-Month USD-LIBOR	4.500%	06/19/2024	400	14	16	0	0
Receive	6-Month EUR-EURIBOR	0.400%	03/14/2015	EUR 1,800	(6)	(3)	0	0
Receive	6-Month EUR-EURIBOR	2.000%	09/17/2024	2,400	(159)	(124)	3	0
Receive	6-Month EUR-EURIBOR	2.750%	09/17/2044	600	(104)	(41)	0	(1)
Receive	6-Month GBP-LIBOR	1.750%	12/17/2016	GBP 7,600	34	10	4	0
Receive	6-Month GBP-LIBOR	3.500%	09/17/2044	500	(40)	(27)	5	0
Pay	6-Month JPY-LIBOR	1.500%	06/19/2033	JPY 1,450,000	196	270	0	(9)
Pay	28-Day MXN-TIIE	5.640%	06/04/2021	MXN 1,000	1	0	0	0
Pay	28-Day MXN-TIIE	6.800%	12/26/2023	1,500	7	2	0	0
					$ (255)	$ 70	$ 15	$ (21)
Total Swap Agreements					**$ (247)**	**$ 71**	**$ 15**	**$ (21)**

FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED SUMMARY

The following is a summary of the market value and variation margin of Exchange-Traded or Centrally Cleared Financial Derivative Instruments as of June 30, 2014:

(h) Securities with an aggregate market value of $479 and cash of $855 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of June 30, 2014. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

	Financial Derivative Assets				Financial Derivative Liabilities			
	Market Value	Variation Margin Asset			Market Value	Variation Margin Liability		
	Purchased Options	Futures	Swap Agreements	Total	Written Options	Futures	Swap Agreements	Total
Total Exchange-Traded or Centrally Cleared	$ 0	$ 10	$ 15	$ 25	$ 0	$ (42)	$ (21)	$ (63)

(i) FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER

FORWARD FOREIGN CURRENCY CONTRACTS:

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Unrealized Appreciation/ (Depreciation) Liability
AZD	07/2014	NZD	1,776	$	1,513	$ 0	$ (42)
BOA	07/2014	BRL	405		182	0	(1)
	07/2014	INR	1,485		25	0	0
	07/2014	$	180	BRL	405	3	0
	07/2014		4,610	GBP	2,716	38	0
	08/2014	EUR	62	$	84	0	(1)
	08/2014	GBP	2,716		4,609	0	(38)
	08/2014	$	1,415	AUD	1,508	3	0
	10/2014	MXN	2,948	$	223	0	(3)
	09/2015	$	70	CNY	430	0	(1)
BPS	07/2014	BRL	210	$	93	0	(2)
	07/2014	EUR	7,012		9,564	0	(38)
	07/2014	GBP	3,522		5,930	0	(97)
	07/2014	INR	2,956		50	1	0
	07/2014	JPY	21,209		207	0	(2)
	07/2014	$	94	BRL	210	1	0
	08/2014	MXN	19,816	$	1,524	2	0
	08/2014	$	360	GBP	212	3	0
	09/2014	MXN	6,945	$	530	0	(2)
	10/2014		13,125		997	0	(8)
BRC	07/2014	EUR	4,154		5,668	0	(20)
	07/2014	JPY	58,000		567	0	(6)
	07/2014	NZD	120		101	0	(4)
	07/2014	$	141	CNY	875	1	0
	07/2014		136	INR	8,049	0	(3)
	08/2014	CHF	390	$	436	0	(4)
	08/2014	SEK	4,234		651	18	0
	08/2014	$	421	GBP	247	2	0
	09/2015		154	CNY	941	0	(4)
CBK	07/2014	BRL	434	$	193	0	(3)
	07/2014	EUR	456		617	0	(7)
	07/2014	INR	1,781		30	0	0
	07/2014	MXN	992		76	0	0
	07/2014	$	196	BRL	434	1	0
	07/2014		121	CNY	750	1	0
	07/2014		7,458	EUR	5,481	47	0
	07/2014		376	JPY	38,253	2	0
	07/2014		225	MXN	2,939	1	0
	08/2014	INR	3,349	$	56	1	0
	09/2015	$	577	CNY	3,492	0	(17)
DUB	07/2014	BRL	92	$	42	0	0
	07/2014	MXN	1,002		77	0	0
	07/2014	$	41	BRL	92	1	0
	07/2014		7,252	EUR	5,336	54	0
	07/2014		498	GBP	293	3	0
	07/2014		1,677	NZD	1,926	10	0
	08/2014	EUR	5,336	$	7,253	0	(55)
	08/2014	NOK	6		1	0	0
	08/2014	NZD	1,926		1,671	0	(10)
	12/2014	MXN	8,266		629	0	(1)

See Accompanying Notes

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Liability
FBF	07/2014	BRL	46	$	21	$ 0	$ 0
	07/2014	$	21	BRL	46	0	0
	07/2014		19,931	EUR	14,611	76	0
	08/2014	EUR	14,611	$	19,933	0	(76)
GLM	07/2014	BRL	684		309	1	(1)
	07/2014	EUR	14,188		19,431	4	0
	07/2014	MXN	705		54	0	0
	07/2014	NZD	30		25	0	(1)
	07/2014	$	304	BRL	684	5	0
	07/2014		85	EUR	62	0	0
	07/2014		26	INR	1,544	0	0
	08/2014	MXN	11,787	$	895	0	(10)
	08/2014	$	298	GBP	175	1	0
	09/2014	MXN	1,776	$	136	0	0
	10/2014		33,612		2,557	0	(14)
	02/2015		37,949		2,859	5	(29)
HUS	07/2014		10,805		817	0	(15)
	07/2014	$	156	INR	9,237	0	(3)
	07/2014		124	MXN	1,621	1	0
JPM	07/2014	BRL	239	$	107	0	(1)
	07/2014	EUR	820		1,116	0	(6)
	07/2014	GBP	239		405	0	(4)
	07/2014	INR	9,382		158	2	0
	07/2014	JPY	493,851		4,849	0	(26)
	07/2014	$	108	BRL	239	0	0
	07/2014		2,253	EUR	1,658	17	0
	07/2014		1,194	GBP	704	10	0
	07/2014		1,558	INR	92,941	0	(17)
	07/2014		5,180	JPY	526,108	13	0
	08/2014	CHF	312	$	347	0	(5)
	08/2014	EUR	1,398		1,901	0	(14)
	08/2014	JPY	526,108		5,182	0	(13)
	08/2014	$	105	BRL	238	2	0
	08/2014		113	INR	6,747	0	(2)
	09/2015		105	CNY	640	0	(3)
MSC	07/2014	BRL	109	$	48	0	(1)
	07/2014	$	49	BRL	108	0	0
	08/2014	INR	3,349	$	56	1	0
	09/2015	$	70	CNY	431	0	(1)
RBC	07/2014	EUR	518	$	704	0	(5)
	07/2014	GBP	69		116	0	(3)
	07/2014	$	195	GBP	117	5	0
	09/2014	CAD	769	$	707	0	(12)
	09/2014	MXN	1,332		102	0	0
	12/2014		6,907		526	0	(1)
SOG	07/2014	AUD	3,646		3,366	0	(71)
	07/2014	$	3,437	AUD	3,646	1	0
	07/2014		85	JPY	8,700	1	0
	08/2014	AUD	3,646	$	3,429	0	(1)
UAG	07/2014	BRL	224		100	0	(2)
	07/2014	CNY	8,252		1,334	0	(2)
	07/2014	MXN	922		71	0	0
	07/2014	$	101	BRL	224	0	0
	07/2014		168	CNY	1,042	1	0
	07/2014		371	INR	21,913	0	(8)
Total Forward Foreign Currency Contracts						**$ 339**	**$ (716)**

PURCHASED OPTIONS:

INTEREST RATE SWAPTIONS

Counterparty	Description	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount	Cost	Market Value
BOA	Put - OTC 30-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	3.450%	09/21/2015	$ 1,000	$ 80	$ 63
Total Purchased Options							**$ 80**	**$ 63**

WRITTEN OPTIONS:

INTEREST RATE SWAPTIONS

Counterparty	Description	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount	Premiums (Received)	Market Value
BOA	Put - OTC 5-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	2.500%	09/21/2015	$ 4,000	$ (76)	$ (61)

CREDIT DEFAULT SWAPTIONS ON CREDIT INDICES

Counterparty	Description	Buy/Sell Protection	Exercise Rate	Expiration Date	Notional Amount	Premiums (Received)	Market Value
BPS	Put - OTC iTraxx Europe 21 5-Year Index	Sell	0.900%	09/17/2014	EUR 600	$ (2)	$ (1)

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Premiums (Received)	Market Value
BOA	Call - OTC USD versus BRL	BRL 2.640	06/10/2015	$ 300	$ (8)	$ (7)
	Call - OTC USD versus INR	INR 61.100	08/20/2014	100	(1)	(1)
	Put - OTC USD versus JPY	JPY 80.000	02/18/2019	400	(22)	(16)
	Put - OTC USD versus JPY	80.000	02/28/2019	200	(10)	(8)
BPS	Call - OTC USD versus BRL	BRL 2.700	05/29/2015	400	(10)	(8)
	Call - OTC USD versus INR	INR 60.300	07/17/2014	200	(1)	(1)
BRC	Put - OTC USD versus JPY	JPY 91.000	02/18/2016	300	(7)	(4)
	Put - OTC USD versus JPY	94.750	04/21/2016	600	(18)	(16)
CBK	Call - OTC USD versus BRL	BRL 2.540	03/09/2015	400	(9)	(7)
	Call - OTC USD versus BRL	2.600	03/11/2015	200	(4)	(3)
	Call - OTC USD versus BRL	2.740	06/08/2015	300	(7)	(5)
	Call - OTC USD versus INR	INR 60.400	07/25/2014	100	(1)	(1)
	Call - OTC USD versus INR	61.300	08/14/2014	300	(2)	(1)
	Put - OTC USD versus JPY	JPY 93.000	04/21/2016	200	(5)	(4)
	Put - OTC USD versus ZAR	ZAR 10.530	07/21/2014	200	(1)	(1)
DUB	Put - OTC USD versus JPY	JPY 92.000	05/19/2016	500	(12)	(10)
	Put - OTC USD versus ZAR	ZAR 10.600	07/16/2014	600	(3)	(3)
FBF	Call - OTC USD versus INR	INR 60.000	08/21/2014	200	(2)	(3)
GLM	Call - OTC USD versus BRL	BRL 2.400	08/29/2014	400	(3)	(1)
	Call - OTC USD versus BRL	2.650	05/29/2015	100	(3)	(2)
	Call - OTC USD versus BRL	2.710	06/02/2015	200	(6)	(4)
	Call - OTC USD versus BRL	2.650	06/08/2015	400	(12)	(9)
	Put - OTC USD versus JPY	JPY 91.000	02/18/2016	200	(4)	(3)
	Put - OTC USD versus ZAR	ZAR 10.670	07/16/2014	500	(3)	(4)
	Put - OTC USD versus ZAR	10.640	07/17/2014	500	(3)	(4)
HUS	Call - OTC USD versus INR	INR 60.000	08/21/2014	200	(2)	(3)
JPM	Put - OTC USD versus JPY	JPY 91.000	02/18/2016	800	(20)	(11)
MSB	Call - OTC USD versus BRL	BRL 2.650	06/08/2015	200	(6)	(5)
	Call - OTC USD versus INR	INR 61.300	08/14/2014	100	(1)	(1)
UAG	Call - OTC USD versus BRL	BRL 2.640	06/15/2015	400	(11)	(10)
					$ (197)	$ (156)
Total Written Options					**$ (275)**	**$ (218)**

TRANSACTIONS IN WRITTEN CALL AND PUT OPTIONS FOR THE PERIOD ENDED JUNE 30, 2014:

	# of Contracts	Notional Amount in $	Notional Amount in AUD	Notional Amount in EUR	Premiums
Balance at Beginning of Period	9	$ 12,300	AUD 0	EUR 3,600	$ (117)
Sales	87	24,500	200	3,300	(322)
Closing Buys	0	(600)	0	0	2
Expirations	(45)	(21,700)	(200)	(4,500)	136
Exercised	(51)	(1,000)	0	(1,800)	26
Balance at End of Period	0	$ 13,500	AUD 0	EUR 600	$ (275)

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - BUY PROTECTION (1)

Counterparty	Reference Entity	Fixed Deal (Pay) Rate	Maturity Date	Implied Credit Spread at June 30, 2014 (3)	Notional Amount (4)	Premiums Paid/(Received)	Unrealized (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BOA	Universal Health Services, Inc.	(1.250%)	06/20/2016	0.348%	$ 1,000	$ 0	$ (18)	$ 0	$ (18)
BRC	Marsh & McLennan Cos., Inc.	(1.160%)	09/20/2014	0.040%	200	0	(1)	0	(1)
						$ 0	$ (19)	$ 0	$ (19)

CREDIT DEFAULT SWAPS ON SOVEREIGN ISSUES - SELL PROTECTION (2)

Counterparty	Reference Entity	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2014 (3)	Notional Amount (4)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BOA	Brazil Government International Bond	1.000%	03/20/2019	1.316%	$ 500	$ (25)	$ 18	$ 0	$ (7)
	Japan Government International Bond	1.000%	06/20/2018	0.259%	200	3	2	5	0
	Russia Government International Bond	1.000%	03/20/2019	1.662%	100	(7)	4	0	(3)
BRC	China Government International Bond	1.000%	03/20/2019	0.676%	100	0	1	1	0
	Japan Government International Bond	1.000%	06/20/2018	0.259%	200	4	2	6	0
	Russia Government International Bond	1.000%	06/20/2019	1.717%	100	(5)	1	0	(4)
	Russia Government International Bond	1.000%	09/20/2019	1.767%	200	(7)	0	0	(7)
CBK	Brazil Government International Bond	1.000%	03/20/2019	1.316%	100	(4)	3	0	(1)
	Russia Government International Bond	1.000%	03/20/2019	1.662%	500	(33)	18	0	(15)
DUB	Brazil Government International Bond	1.000%	03/20/2019	1.316%	300	(13)	9	0	(4)
	China Government International Bond	1.000%	03/20/2019	0.676%	100	0	1	1	0
	Italy Government International Bond	1.000%	03/20/2019	0.887%	600	(11)	15	4	0
	Italy Government International Bond	1.000%	06/20/2019	0.919%	100	(2)	2	0	0
	Japan Government International Bond	1.000%	06/20/2018	0.259%	400	8	4	12	0
GST	Japan Government International Bond	1.000%	06/20/2018	0.259%	400	8	4	12	0
HUS	Brazil Government International Bond	1.000%	06/20/2019	1.380%	500	(10)	1	0	(9)
	Italy Government International Bond	1.000%	03/20/2019	0.887%	100	(2)	3	1	0
	Russia Government International Bond	1.000%	03/20/2019	1.662%	100	(6)	3	0	(3)
JPM	Brazil Government International Bond	1.000%	03/20/2019	1.316%	200	(8)	5	0	(3)
	Brazil Government International Bond	1.000%	06/20/2019	1.380%	100	(2)	1	0	(1)
MYC	Brazil Government International Bond	1.000%	03/20/2019	1.316%	100	(4)	3	0	(1)
	China Government International Bond	1.000%	03/20/2019	0.676%	100	0	1	1	0
	Japan Government International Bond	1.000%	06/20/2018	0.259%	200	4	2	6	0
						$ (112)	$ 103	$ 49	$ (58)

(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.

INTEREST RATE SWAPS

Counterparty	Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BOA	Pay	28-Day MXN-TIIE	6.600%	05/21/2029	MXN 400	$ 0	$ 0	$ 0	$ 0
BPS	Pay	28-Day MXN-TIIE	6.800%	12/26/2023	7,200	(5)	39	34	0
BRC	Pay	28-Day MXN-TIIE	6.800%	12/26/2023	4,700	(3)	26	23	0
DUB	Pay	28-Day MXN-TIIE	6.800%	12/26/2023	1,600	0	8	8	0
	Pay	28-Day MXN-TIIE	6.600%	05/21/2029	1,000	(1)	1	0	0
	Pay	28-Day MXN-TIIE	6.980%	05/19/2034	1,000	0	1	1	0

Counterparty	Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
GLM	Pay	28-Day MXN-TIIE	6.800%	12/26/2023	MXN 7,500	$ 1	$ 35	$ 36	$ 0
	Pay	28-Day MXN-TIIE	7.150%	04/27/2034	1,000	0	2	2	0
HUS	Pay	28-Day MXN-TIIE	6.800%	12/26/2023	500	0	2	2	0
	Pay	28-Day MXN-TIIE	6.600%	05/21/2029	1,000	0	0	0	0
JPM	Pay	28-Day MXN-TIIE	6.800%	12/26/2023	2,000	(1)	11	10	0
SOG	Pay	28-Day MXN-TIIE	6.800%	12/26/2023	1,000	0	4	4	0
	Pay	28-Day MXN-TIIE	7.380%	02/09/2029	2,000	9	2	11	0
						$ 0	$ 131	$ 131	$ 0
Total Swap Agreements						**$ (112)**	**$ 215**	**$ 180**	**$ (77)**

FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER SUMMARY

The following is a summary by counterparty of the market value of OTC financial derivative instruments and collateral (received) as of June 30, 2014:

	Financial Derivative Assets				Financial Derivative Liabilities						
Counterparty	Forward Foreign Currency Contracts	Purchased Options	Swap Agreements	Total Over the Counter	Forward Foreign Currency Contracts	Written Options	Swap Agreements	Total Over the Counter	Net Market Value of OTC Derivatives	Collateral (Received)/ Pledged	Net Exposure [5]
AZD	$ 0	$ 0	$ 0	$ 0	$ (42)	$ 0	$ 0	$ (42)	$ (42)	$ 0	$ (42)
BOA	44	63	5	112	(44)	(93)	(28)	(165)	(53)	0	(53)
BPS	7	0	34	41	(149)	(10)	0	(159)	(118)	0	(118)
BRC	21	0	30	51	(41)	(20)	(12)	(73)	(22)	0	(22)
CBK	53	0	0	53	(27)	(22)	(16)	(65)	(12)	0	(12)
DUB	68	0	26	94	(66)	(13)	(4)	(83)	11	0	11
FBF	76	0	0	76	(76)	(3)	0	(79)	(3)	0	(3)
GLM	16	0	38	54	(55)	(27)	0	(82)	(28)	0	(28)
GST	0	0	12	12	0	0	0	0	12	0	12
HUS	1	0	3	4	(18)	(3)	(12)	(33)	(29)	0	(29)
JPM	44	0	10	54	(91)	(11)	(4)	(106)	(52)	0	(52)
MSB	0	0	0	0	0	(6)	0	(6)	(6)	0	(6)
MSC	1	0	0	1	(2)	0	0	(2)	(1)	0	(1)
MYC	0	0	7	7	0	0	(1)	(1)	6	(30)	(24)
RBC	5	0	0	5	(21)	0	0	(21)	(16)	0	(16)
SOG	2	0	15	17	(72)	0	0	(72)	(55)	0	(55)
UAG	1	0	0	1	(12)	(10)	0	(22)	(21)	0	(21)
Total Over the Counter	**$339**	**$63**	**$180**	**$582**	**$(716)**	**$(218)**	**$(77)**	**$(1,011)**			

[5] Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from OTC financial derivative instruments 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.

FAIR VALUE OF FINANCIAL DERIVATIVE INSTRUMENTS

The following is a summary of the fair valuation of the Portfolio's derivative instruments categorized by risk exposure. See Note 7, Principal Risks, in the Notes to Financial Statements on risks of the Portfolio.

Fair Values of Financial Derivative Instruments on the Statement of Assets and Liabilities as of June 30, 2014:

	Derivatives not accounted for as hedging instruments					
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
Financial Derivative Instruments - Assets						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 10	$ 10
Swap Agreements	0	0	0	0	15	15
	$ 0	$ 0	$ 0	$ 0	$ 25	$ 25
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 339	$ 0	$ 339
Purchased Options	0	0	0	0	63	63
Swap Agreements	0	49	0	0	131	180
	$ 0	$ 49	$ 0	$ 339	$ 194	$ 582
	$ 0	$ 49	$ 0	$ 339	$ 219	$ 607

	Derivatives not accounted for as hedging instruments					
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
Financial Derivative Instruments - Liabilities						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 42	$ 42
Swap Agreements	0	0	0	0	21	21
	$ 0	$ 0	$ 0	$ 0	$ 63	$ 63
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 716	$ 0	$ 716
Written Options	0	1	0	156	61	218
Swap Agreements	0	77	0	0	0	77
	$ 0	$ 78	$ 0	$ 872	$ 61	$ 1,011
	$ 0	$ 78	$ 0	$ 872	$ 124	$ 1,074

The Effect of Financial Derivative Instruments on the Statement of Operations for the Period Ended June 30, 2014:

	Derivatives not accounted for as hedging instruments					
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
Net Realized Gain (Loss) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Written Options	$ 0	$ 0	$ 0	$ 0	$ 11	$ 11
Futures	(32)	0	0	0	(136)	(168)
Swap Agreements	0	1	0	0	91	92
	$ (32)	$ 1	$ 0	$ 0	$ (34)	$ (65)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ (666)	$ 0	$ (666)
Written Options	0	6	0	89	31	126
Swap Agreements	0	8	0	0	279	287
	$ 0	$ 14	$ 0	$ (577)	$ 310	$ (253)
	$ (32)	$ 15	$ 0	$ (577)	$ 276	$ (318)
Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Written Options	$ 0	$ 0	$ 0	$ 0	$ (2)	$ (2)
Futures	0	0	0	0	(60)	(60)
Swap Agreements	0	1	0	0	356	357
	$ 0	$ 1	$ 0	$ 0	$ 294	$ 295
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 45	$ 0	$ 45
Purchased Options	0	0	0	0	(104)	(104)
Written Options	0	1	0	41	74	116
Swap Agreements	0	96	0	0	123	219
	$ 0	$ 97	$ 0	$ 86	$ 93	$ 276
	$ 0	$ 98	$ 0	$ 86	$ 387	$ 571

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of June 30, 2014 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2014
Investments in Securities, at Value				
Australia				
Corporate Bonds & Notes	$ 0	$ 2,003	$ 0	$ 2,003
Mortgage-Backed Securities	0	109	0	109
Sovereign Issues	0	129	0	129
Brazil				
Corporate Bonds & Notes	0	514	0	514
Canada				
Corporate Bonds & Notes	0	500	0	500
Sovereign Issues	0	705	0	705
Cayman Islands				
Asset-Backed Securities	0	228	0	228
China				
Corporate Bonds & Notes	0	210	0	210
Denmark				
Corporate Bonds & Notes	0	3	0	3
France				
Corporate Bonds & Notes	0	700	0	700
Sovereign Issues	0	3,949	0	3,949
Germany				
Corporate Bonds & Notes	0	382	0	382
Sovereign Issues	0	1,536	0	1,536
Hong Kong				
Corporate Bonds & Notes	0	204	0	204
Ireland				
Asset-Backed Securities	0	158	0	158
Italy				
Asset-Backed Securities	0	431	0	431
Corporate Bonds & Notes	0	578	0	578
Mortgage-Backed Securities	0	923	0	923
Sovereign Issues	0	5,556	0	5,556
Luxembourg				
Corporate Bonds & Notes	0	625	0	625
Mexico				
Sovereign Issues	0	2,475	0	2,475
Netherlands				
Asset-Backed Securities	0	286	0	286
New Zealand				
Sovereign Issues	0	1,675	0	1,675
Norway				
Sovereign Issues	0	403	0	403
Slovenia				
Sovereign Issues	0	1,575	0	1,575
Spain				
Corporate Bonds & Notes	0	592	0	592
Sovereign Issues	0	10,737	0	10,737
Supranational				
Corporate Bonds & Notes	0	1,380	0	1,380
Sweden				
Corporate Bonds & Notes	0	418	0	418
Sovereign Issues	0	207	0	207

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2014
United Kingdom				
Asset-Backed Securities	$ 0	$ 455	$ 0	$ 455
Corporate Bonds & Notes	0	786	0	786
Mortgage-Backed Securities	0	1,728	0	1,728
Sovereign Issues	0	3,693	0	3,693
United States				
Asset-Backed Securities	0	1,003	0	1,003
Corporate Bonds & Notes	0	3,262	0	3,262
Mortgage-Backed Securities	0	4,356	0	4,356
Municipal Bonds & Notes	0	381	0	381
Preferred Securities	0	22	0	22
U.S. Government Agencies	0	7,177	0	7,177
U.S. Treasury Obligations	0	1,187	0	1,187
Short-Term Instruments				
Certificates of Deposit	0	1,703	0	1,703
Repurchase Agreements	0	763	0	763
Greece Treasury Bills	0	273	0	273
Mexico Treasury Bills	0	9,226	0	9,226
U.S. Treasury Bills	0	256	0	256
	$ 0	$ 75,462	$ 0	$ 75,462
Investments in Affiliates, at Value				
Short-Term Instruments				
Central Funds Used for Cash Management Purposes	8,925	0	0	8,925
Total Investments	$ 8,925	$ 75,462	$ 0	$ 84,387
Short Sales, at Value - Liabilities				
U.S. Government Agencies	$ 0	$ (3,241)	$ 0	$ (3,241)
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	10	15	0	25
Over the counter	0	582	0	582
	$ 10	$ 597	$ 0	$ 607
Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	(42)	(21)	0	(63)
Over the counter	0	(1,011)	0	(1,011)
	$ (42)	$ (1,032)	$ 0	$ (1,074)
Totals	$ 8,893	$ 71,786	$ 0	$ 80,679

There were no significant transfers between Level 1 and 2 during the period ended June 30, 2014. There were assets and liabilities valued at $1,993 transferred from Level 3 to Level 2 during the period ended June 30, 2014. There were no significant assets and liabilities transferred from Level 2 to Level 3 during the period ended June 30, 2014.

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 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. Pacific Investment Management Company LLC ("PIMCO" or "Manager") serves as the investment adviser for the Portfolio.

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 probable.

(b) Cash and Foreign Currency The functional and reporting currency for the Portfolio is the U.S. dollar. The market values of foreign securities, currency holdings and other assets and liabilities are translated into U.S. dollars based on the current exchange rates each business day. Purchases and sales of securities and 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 Statement of Operations. The Portfolio may invest in foreign currency-denominated securities and may engage in foreign currency transactions either on a spot (cash) basis at the rate prevailing in the currency exchange market at the time or through a forward foreign currency contract (see financial derivative instruments). Realized foreign exchange gains or losses arising from sales of spot 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 Statement of Operations. Net unrealized foreign exchange gains and losses arising 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 foreign currency assets and liabilities on the Statement 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 paydowns on mortgage-backed securities, 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 June 2013, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") providing updated guidance for assessing whether an entity is an investment company and for the measurement of noncontrolling ownership interests in other investment companies. This update is effective prospectively during interim or annual periods beginning on or after December 15, 2013. The Portfolio has adopted the ASU for the fiscal year ended December 31, 2013 as it follows the investment company reporting requirements under U.S. GAAP and did not have an impact on the Portfolio's financial statements.

In June 2014, the FASB issued an ASU that expands secured borrowing accounting for certain repurchase agreements. The ASU also sets forth additional disclosure requirements for certain transactions accounted for as sales, in order to provide financial statement users with information to compare to similar transactions accounted for as secured borrowings. The ASU is effective prospectively during interim or annual periods beginning after December 15, 2014. At this time, management is evaluating the implications of these changes on the financial statements.

3. INVESTMENT VALUATION AND FAIR VALUE MEASUREMENTS

(a) Investment Valuation Policies The Net Asset Value ("NAV") of the Portfolio's shares is valued as of the close of regular trading (normally 4:00 p.m., Eastern time) (the "NYSE Close") on each day that the New York Stock Exchange ("NYSE") is open (each a "Business Day"). Information that becomes known to the Portfolio or its agents after the NAV has been calculated on a particular day will not generally be used to retroactively adjust the price of a security or the NAV determined earlier that day.

For purposes of calculating the NAV, portfolio securities and other financial derivative instruments are valued on each Business Day using valuation methods as adopted by the Board of Trustees (the "Board") of the Trust. The Board has formed a Valuation Committee whose function is to monitor the valuation of portfolio securities and other financial derivative instruments and, as required by the Trust's valuation policies, determine in good faith the fair value of portfolio holdings after consideration of all relevant factors, including recommendations provided by the Adviser. The Board has delegated responsibility for applying the valuation methods to the investment adviser (the "Adviser"). The Adviser monitors the continual appropriateness of methods applied and determines if adjustments should be made in light of market factor changes and events affecting issuers.

Where market quotes are readily available, fair market value is generally determined on the basis of official closing prices or the 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 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, 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 that may require fair valuation under particular circumstances. The Adviser monitors the continual appropriateness of fair valuation 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 fair 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 reviews 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.

In circumstances in which daily market quotes are not readily available, investments may be valued pursuant to guidelines established by the Board. In the event that the security or asset cannot be valued pursuant to the established guidelines, the value of the security or other financial derivative instrument 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 describes 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 3 to Level 2 are a result of the availability of current and reliable market-based data provided by third-party pricing services or other valuation techniques which utilize significant observable inputs. 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 on futures 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 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 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 redemption where the inputs to the 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 price 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.

4. SECURITIES AND OTHER INVESTMENTS

(a) Investments in Securities

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.

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, stripped 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. Interest 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 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.

Stripped Mortgage-Backed Securities ("SMBS") are derivative multi-class mortgage securities. SMBS are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. A SMBS will have one class that will receive all of the interest (the interest-only or "IO" class), while the other class will receive the entire principal (the principal-only or "PO" class). Payments received for IOs are included in interest income on the Statement of Operations. Because no principal will be received at the maturity of an IO, adjustments are made to the cost of the security on a monthly basis until maturity. These adjustments are included in interest income on the Statement of Operations. Payments received for POs are treated as reductions to the cost and par value of the securities.

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"); and 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.

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 is made by the Portfolio to purchase or sell these 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.

(b) Investments in Affiliates

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, 2014 (amounts in thousands):

Investments in PIMCO Short-Term Floating NAV Portfolio

Market Value 12/31/2013	Purchases at Cost	Proceeds from Sales	Net Realized Gain/(Loss)	Change in Unrealized Appreciation/ (Depreciation)	Market Value 06/30/2014	Dividend Income	Net Capital Gain Distributions
$ 4,935	$ 6,402	$ (11,320)	$ 0	$ 0	$ 17	$ 1	$ 0

Investments in PIMCO Short-Term Floating NAV Portfolio III

Market Value 12/31/2013	Purchases at Cost	Proceeds from Sales	Net Realized Gain/(Loss)	Change in Unrealized Appreciation/ (Depreciation)	Market Value 06/30/2014	Dividend Income	Net Capital Gain Distributions
$ 0	$ 32,905	$ (24,000)	$ 2	$ 1	$ 8,908	$ 6	$ 0

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. Repurchase agreements, including accrued interest, are included on the Statement of Assets and Liabilities. Interest earned is recorded as a component of interest income on the Statement of Operations. In periods of increased demand for collateral, the Portfolio may pay a fee for receipt of collateral, which may result in interest expense to the Portfolio.

(b) Reverse Repurchase Agreements The Portfolio may enter into reverse repurchase agreements. In a reverse repurchase agreement, the Portfolio delivers a security in exchange for cash to a financial institution, the counterparty, with a simultaneous agreement to repurchase the same or substantially the same security at an agreed upon price and date. The Portfolio is entitled to receive principal and interest payments, if any, made on the security delivered to the counterparty during the term of the agreement. Cash received in exchange for securities delivered plus accrued interest payments to be made by the Portfolio to counterparties are reflected as a liability on the Statement of Assets and Liabilities. Interest payments made by the Portfolio to counterparties are recorded as a component of interest expense on the Statement of Operations. In periods of increased demand for the security, the Portfolio may receive a fee for use of the security by the counterparty, which may result in interest income to the Portfolio. The Portfolio will segregate assets determined to be liquid by PIMCO or will otherwise cover its obligations under reverse repurchase agreements.

(c) Sale-Buybacks The Portfolio may enter into financing transactions referred to as 'sale-buybacks'. A sale-buyback transaction consists of a sale of a security by the Portfolio to a financial institution, the counterparty, with a simultaneous agreement to repurchase the same or substantially the same security at an agreed-upon price and date. The Portfolio is not entitled to receive principal and interest payments, if any, made on the security sold to the counterparty during the term of the agreement. The agreed-upon proceeds for securities to be repurchased by the Portfolio are reflected as a liability on the Statement of Assets and Liabilities. The Portfolio will recognize net income represented by the price differential between the price received for the transferred security and the agreed-upon repurchase price. This is commonly referred to as the 'price drop'. A price drop consists of (i) the foregone interest and inflationary income adjustments, if any, the Portfolio would have otherwise received had the security not been sold and (ii) the negotiated financing terms between the Portfolio and counterparty. Foregone interest and inflationary income adjustments, if any, are recorded as components of interest income on the Statement of Operations. Interest payments based upon negotiated financing terms made by the Portfolio to counterparties are recorded as a component of interest expense on the Statement of Operations. In periods of increased demand for the security, the Portfolio may receive a fee for use of the security by the counterparty, which may result in interest income to the Portfolio. The Portfolio will segregate assets determined to be liquid by PIMCO or will otherwise cover its obligations under sale-buyback transactions.

(d) Short Sales The Portfolio may enter into short sales transactions. A short sale is a transaction in which the Portfolio sells securities it may not own in anticipation of a decline in the fair market value of the securities. Securities sold in short sale transactions and the interest payable on such securities, if any, are reflected as a liability on the Statement of Assets and Liabilities. The Portfolio is obligated to deliver securities at the trade price at the time the short position is covered. Possible losses from short sales may be unlimited, whereas losses from purchases cannot exceed the total amount invested.

6. FINANCIAL DERIVATIVE INSTRUMENTS

The following disclosures contain information on how and why the Portfolio uses financial derivative instruments, the credit-risk-related contingent features in certain financial derivative instruments, and how financial derivative instruments affect the Portfolio's financial position, results of operations and cash flows. The location and fair value amounts of these instruments on the Statement of Assets and Liabilities and the realized and changes in unrealized gains and losses on the Statement of Operations, each categorized by type of financial derivative contract and related risk exposure, are included in a table in the Notes to Schedule of Investments. The financial derivative instruments outstanding as of period end and the amounts of realized and changes in unrealized gains and losses on financial derivative instruments during the period, as disclosed in the Notes to Schedule of Investments, serve as indicators of the volume of financial derivative activity for the Portfolio.

(a) Forward Foreign Currency Contracts The Portfolio may enter into forward 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 forward 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 forward foreign currency contract fluctuates with changes in foreign currency exchange rates. Forward 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, cash or 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, 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 included 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 as an asset on the Statement of Assets and Liabilities 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.

Credit Default Swaptions The Portfolio may write or purchase credit default swaption agreements to hedge exposure to the credit risk of an investment without making a commitment to the underlying instrument. A credit default swaption is an option to sell or buy credit protection to a specific reference by entering into a pre-defined swap agreement by some specified date in the future.

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 change 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 paid at the beginning of the measurement period are included 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). Upfront premiums received (paid) are initially recorded as liabilities (assets) and subsequently marked to market to reflect the current value of the swap. 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 payment/performance risk and represent the likelihood or risk of default for the reference entity. 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 equals the notional amount of the agreement. Notional amounts of each individual credit default swap agreement outstanding as of period end 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 buyer pays an upfront fee in consideration for the right to early terminate the swap transaction in whole, at zero costs and 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 segments of 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 such things as 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 more comprehensive 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 an increase 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. Interest rate changes can be sudden and unpredictable, and the Portfolio may lose money if these changes are not anticipated by Portfolio management. The Portfolio may not be able to hedge against changes in interest rates or may choose not to do so for cost or other reasons. In addition, any hedges may not work as intended. 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 security's market price to interest rate (i.e. yield) movements. A wide variety of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions, etc.). At present, the U.S. is experiencing historically low interest rates. This, combined with recent economic recovery and the Federal Reserve Board's tapering of its quantitative easing program, could potentially increase the probability of an upward interest rate environment in the near future. Further, while U.S. bond markets have steadily grown over the past three decades, dealer "market making" ability has remained relatively stagnant. Given the importance of intermediary "market making" in creating a robust and active market, fixed income securities are currently facing increased volatility and liquidity risks. All of these factors, collectively and/or individually, could cause a Portfolio to lose value. If the Portfolio lost enough value, the Portfolio could face increased redemptions by shareholders, which could further impair its performance.

The Portfolio may invest in securities and instruments that are economically tied to Russia. Investments in Russia are subject to political, economic, legal, market and currency risks. The risks include uncertain political and economic policies, short-term market volatility, poor accounting standards, corruption and crime, an inadequate regulatory system, and unpredictable taxation. Investments in Russia are particularly subject to the risk that economic sanctions may be imposed by the United States and/or other countries. Such sanctions—which may impact companies in many sectors, including energy, financial services and defense, among others—may negatively impact the Portfolio's performance and/or ability to achieve its investment objective.

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 Portfolio's returns. Because the markets for certain derivative instruments (including markets located in foreign countries) are relatively new and still developing, appropriate derivative transactions may not be available in all circumstances for risk management or other purposes. Upon the expiration of a particular contract, the Portfolio may wish to retain its position in the derivative instrument by entering into a similar contract, but may be unable to do so if the counterparty to the original contract is unwilling to enter into the new contract and no other appropriate counterparty can be found. When such markets are unavailable, the Portfolio will be subject to increased liquidity and investment risk.

The market values of equities, such as common stocks and preferred securities or equity related investments such as futures and options, have historically risen and fallen in periodic cycles and 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. Different types of equity securities may react differently to these developments. Equity securities and equity related investments generally have greater market price volatility than fixed income securities.

The Portfolio's investments in commodity-linked financial derivative instruments may subject the Portfolio to greater market price volatility than investments in traditional securities. The value of commodity-linked financial derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments.

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 netting arrangements with select counterparties ("Master Agreements"). 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 the Statement of Assets and Liabilities as Deposits due to Counterparties. The market value of any securities received as collateral is 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 which is segregated at a broker account registered with the Commodity 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 Portfolio. Variation margin, or 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 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 are disclosed in the Notes to Schedule of Investments.

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.

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 Multi-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, which 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, 2014, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 of the Act (amounts in thousands):

Purchases	Sales
$ 1,422	$ 281

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 a Portfolio has held a particular security is not generally a consideration in investment decisions. A change in the securities held by a 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 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 a 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, 2014 , were as follows (amounts in thousands):

U.S. Government/Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 6,622	$ 3,230	$ 29,392	$ 28,573

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 06/30/2014		Year Ended 12/31/2013	
	Shares	Amount	Shares	Amount
Receipts for shares sold				
Institutional Class	11	$ 115	0	$ 0
Administrative Class	1,856	19,074	1,848	19,667
Advisor Class	597	6,230	0	0
Issued as reinvestment of distributions				
Institutional Class	0	0	0	2
Administrative Class	67	695	503	5,145
Advisor Class	1	7	0	0
Cost of shares redeemed				
Institutional Class	0	(1)	0	0
Administrative Class	(1,431)	(14,790)	(3,037)	(32,326)
Advisor Class	0	0	0	0
Net increase (decrease) resulting from Portfolio share transactions	1,101	$ 11,330	(686)	$ (7,512)

As of June 30, 2014, three shareholders each owned 10% or more of the total Portfolio's outstanding shares comprising 58% 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 Adviser has reviewed the Portfolio's tax positions for all open tax years. As of June 30, 2014, 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 2010-2012, 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, 2014, 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 Appreciation (1)
$ 81,769	$ 3,368	$ (750)	$ 2,618

(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:

AZD	Australia and New Zealand Banking Group	**FBF**	Credit Suisse International	**MSC**	Morgan Stanley & Co., Inc.
BOA	Bank of America N.A.	**FOB**	Credit Suisse Securities (USA) LLC	**MYC**	Morgan Stanley Capital Services, Inc.
BOS	Banc of America Securities LLC	**GLM**	Goldman Sachs Bank USA	**RBC**	Royal Bank of Canada
BPS	BNP Paribas S.A.	**GST**	Goldman Sachs International	**SOG**	Societe Generale
BRC	Barclays Bank PLC	**HUS**	HSBC Bank USA N.A.	**SSB**	State Street Bank and Trust Co.
CBK	Citibank N.A.	**JPM**	JPMorgan Chase Bank N.A.	**UAG**	UBS AG Stamford
DUB	Deutsche Bank AG	**MSB**	Mitsubishi Trust & Bank		

Currency Abbreviations:

AUD	Australian Dollar	**EUR**	Euro	**NZD**	New Zealand Dollar
BRL	Brazilian Real	**GBP**	British Pound	**SEK**	Swedish Krona
CAD	Canadian Dollar	**INR**	Indian Rupee	**USD (or $)**	United States Dollar
CHF	Swiss Franc	**JPY**	Japanese Yen	**SEK**	Swedish Krona
CNY	Chinese Renminbi	**MXN**	Mexican Peso	**ZAR**	South African Rand
DKK	Danish Krone	**NOK**	Norwegian Krone		

Exchange Abbreviations:

OTC	Over the Counter

Index Abbreviations:

CDX.IG	Credit Derivatives Index - Investment Grade

Other Abbreviations:

ABS	Asset-Backed Security	**LIBOR**	London Interbank Offered Rate	**NCUA**	National Credit Union Administration
ALT	Alternate Loan Trust	**MBS**	Mortgage-Backed Security	**TIIE**	Tasa de Interés Interbancaria de Equilibrio
BABs	Build America Bonds				

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

General Information

Investment Adviser and Administrator

Pacific Investment Management Company LLC
650 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, Suite 1300
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

PVIT21SAR_063014

PIMCO

Your Global Investment Authority

PIMCO Variable Insurance Trust

Semiannual Report

June 30, 2014

PIMCO Low Duration Portfolio

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, 2014. On the following pages please find specific details as to the Portfolio's investment performance and a discussion of the factors that affected performance.

In contrast to the market reaction during the summer of 2013 in which the Federal Reserve's ("Fed") new "taper talk" caused significant market turmoil, over the past six months, investor risk appetite returned on better clarity regarding central bank policy and an easing of global geopolitical risks towards the latter part of the period. Global bond markets generally rallied (with yields lower and prices therefore higher) as central banks remained accommodative.

The outlook for the U.S. economy improved on steady though historically slow employment growth and renewed business investment activity during the reporting period. However, while the Fed noted in its June 2014 meeting that the U.S. economy had "rebounded", the central bank reiterated its view that the economy still had some distance to go to meet its employment and specific inflation targets. Investors became more comfortable with the idea that the Fed would keep its policy rate lower than historical norms during a recovery, leading to a flattening of the U.S. Treasury yield curve.

This sentiment was reinforced by a series of actions announced by the European Central Bank ("ECB") on June 5, 2014. ECB President Mario Draghi lowered the ECB's benchmark rate by 10 basis points, reduced its deposit rate into unprecedented negative territory to help mitigate potential deflationary forces (making the ECB the first major central bank to do so), opened a new liquidity channel to help encourage bank lending, and mentioned plans to begin a future quantitative easing asset purchase program. These measures reflect the ECB's decision to attempt to tackle the threat of deflation in the Eurozone amid slower-than-historical and expected economic growth. Consequently, yields on Spanish and Italian bonds ended the period closer to their ten-year U.S. Treasury counterparts.

Within Asia, Japan raised its consumption tax, leading to a decline in household spending and retail sales. China, also facing a more challenging growth outlook, launched a mini-stimulus program and continued to finely tune its monetary policies amid lingering concerns regarding shadow banking-related defaults.

Highlights of the financial markets during our six-month fiscal reporting period include:

- U.S. Treasuries, as represented by the Barclays U.S. Treasury Index, returned 2.72% over the reporting period. The U.S. Treasury yield curve flattened as the Fed signaled that it was in no hurry to start raising interest rates. As a result, investors continued pricing in low policy rates and lower long-term yields. The benchmark ten-year U.S. Treasury note yielded 2.53% at the end of the reporting period, down from 3.03% on December 31, 2013. The Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, returned 3.93% for the period.

- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Barclays U.S. TIPS Index, returned 5.83% over the reporting period. The asset class generally gained on supportive inflationary data and returning investor demand. U.S. TIPS outperformed nominal U.S. Treasuries as current and expected levels of inflation increased over the period. Higher heating costs during the winter and the conflict in Iraq towards the latter part of the period contributed to higher energy prices, which impacted near-term headline inflation, while increasing rent prices continued to contribute to core inflation. Inflation-linked bonds ("ILBs") also posted positive returns globally with emerging market ILBs showing significant strength. Diversified commodities, as represented by the Bloomberg Commodity Index Total Return, returned 7.08%.

- Agency mortgage-backed securities ("MBS"), as represented by the Barclays Agency Fixed-Rate MBS Index, returned 4.08% over the reporting period. Agency MBS outperformed like-duration U.S. Treasuries despite continued tapering of mortgage purchases by the Fed. Lack of new issuances was the primary driver of performance in the sector, as limited refinancing activity, slow housing turnover and winter weather-related weakness in much of the U.S. contributed to lower than expected mortgage originations. Non-Agency MBS continued to benefit from the ongoing recovery in the U.S. housing market, demand for spread assets, and limited new issue supply.

- U.S. investment grade credit, as measured by the Barclays U.S. Credit Index, returned 5.70% over the reporting period. The sector outperformed like-duration U.S. Treasuries as spreads narrowed. The high yield corporate bond sector also posted positive returns, benefiting from robust inflows and overall low market volatility. Spreads tightened in spite of falling U.S. Treasury yields, primarily due to improvements in global growth, solid corporate fundamentals and continued accommodative global central bank policy. Bank loans posted relatively healthy returns, despite headwinds in the form of lower government interest rates and diminishing retail demand as reflected by outflows from mutual funds during the second quarter of the period. While retail flows have reversed, issuance of collateralized loan obligations ("CLOs"), which represents another large source of demand, provided a steady bid for loans and remained active during the period.
- Emerging Markets ("EM") external debt, as measured by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned 9.10% over the reporting period as spreads for EM external debt narrowed. EM local bonds, as represented by the JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged), returned 5.99% over the period. EM external debt outperformed EM local debt, though local debt rebounded as investors sought the relatively high yields of the asset class. Inflows have returned across EM asset classes due to attractive valuations, modest relief over Chinese growth concerns, market-friendly election results in EM countries, and renewed appetite for higher yields.
- Developed market equities posted positive returns as investors embraced higher-risk assets due to better clarity on central bank policy and an easing of geopolitical tensions. U.S. equities, as measured by the S&P 500 Index, returned 7.14%. Global equities, as represented by the MSCI All Country World Index Net USD and MSCI World Index, returned 6.18% for both indexes. EM equities, as represented by the MSCI Emerging Markets Index (Net Dividends in USD), returned 6.14%.

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 24, 2014

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. A number of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions). Accordingly, changes in interest rates can be sudden, and there is no guarantee that Fund management will anticipate such movement.

As of the date of this report, interest rates in the U.S. are at or near historically low levels. As such, bond funds may currently face an increased exposure to the risks associated with a rising interest rate environment. This is especially true since the Federal Reserve Board has begun tapering its quantitative easing program. Further, while the U.S. bond market has steadily grown over the past three decades, dealer inventories of corporate bonds have remained relatively stagnant. As a result, there has been a significant reduction in the ability of dealers to "make markets." All of the factors mentioned above, individually or collectively, could lead to increased volatility and/or lower liquidity in the fixed income markets, which could result in losses to the Portfolio.

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. If the performance of the Portfolio were to be negatively impacted by rising interest rates, the Portfolio could face increased redemptions by its shareholders, which could further reduce the value of the Portfolio.

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, call 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, which translates into heightened volatility in the Portfolio. 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 foreign (non-U.S.) securities may entail risk due to foreign (non-U.S.) economic and political developments; this risk may be increased when investing in emerging markets. For example, if the Portfolio invests in emerging market debt, it may face increased exposure to interest rate, liquidity, volatility, and redemption risk due to the specific economic, political, geographical, or legal background of the foreign issuer.

High-yield bonds typically have a lower credit rating than other bonds. Lower-rated bonds generally involve a greater risk to principal than higher-rated bonds. Further, markets for lower-rated bonds are typically less liquid than for higher-rated bonds, and public information is usually less abundant in such markets. Thus, high yield investments increase the chance that the Portfolio will lose money. The credit quality of a particular security or group of securities does not ensure the stability or safety of the overall portfolio. Mortgage- and Asset-Backed Securities represent ownership interests in "pools" of mortgages or other assets such as consumer loans or receivables. As a general matter, Mortgage- and Asset-Backed Securities are subject to interest rate risk, extension risk, prepayment risk, and credit risk. These risks largely stem from the fact that returns on Mortgage- and Asset-Backed Securities depend on the ability of the underlying assets to generate cash flow.

On the Portfolio Summary page in this 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, 2014 to June 30, 2014.

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 = $8.60), 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.

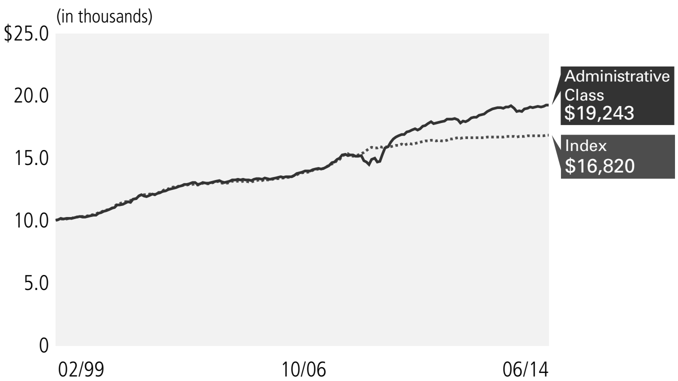
Hypothetical Example for Comparison Purposes

The information in the table under the heading "Hypothetical (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 (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, 2014



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Allocation Breakdown†

Short-Term Instruments‡	34.4%
Corporate Bonds & Notes	25.0%
Sovereign Issues	18.0%
Mortgage-Backed Securities	6.8%
U.S. Treasury Obligations	6.4%
Asset-Backed Securities	6.1%
Other	3.3%

† % of Investments, at value as of 06/30/14

‡ Includes Central Funds used for Cash Management Purposes

Average Annual Total Return for the period ended June 30, 2014

	6 Months*	1 Year	5 Years	10 Years	Class Inception (02/16/1999)
— PIMCO Low Duration Portfolio Administrative Class	1.25%	2.71%	3.87%	3.93%	4.33%
····· The BofA Merrill Lynch 1-3 Year U.S. Treasury Index±	0.41%	0.76%	1.18%	2.62%	3.43%

All Portfolio returns are net of fees and expenses.

* Cumulative return.

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 U.S. 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

Expense Example	Actual	Hypothetical (5% return before expenses)
Beginning Account Value (01/01/14)	$1,000.00	$1,000.00
Ending Account Value (06/30/14)	$1,012.50	$1,021.57
Expenses Paid During Period†	$ 3.24	$ 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 overweight to U.S. duration (or sensitivity to changes in market interest rates) benefited performance as U.S. yields fell during the reporting period.

» Exposure to Italian and Spanish duration benefited performance as bond yields in both countries decreased during the reporting period.

» Exposure to investment grade credit benefited performance as credit spreads narrowed during the reporting period.

» Exposure to high yield credit benefited performance as high yield credit spreads narrowed during the reporting period.

» Exposure to non-Agency residential mortgage-backed securities ("RMBS") benefited performance as prices on these securities generally increased during the reporting period.

» Short exposure to the Japanese yen detracted from performance as the Japanese yen appreciated versus the U.S. dollar during the reporting period.

Financial Highlights PIMCO Low Duration Portfolio

Selected Per Share Data for the Year or Period Ended:	06/30/2014+	12/31/2013	12/31/2012	12/31/2011	12/31/2010	12/31/2009
Administrative Class						
Net asset value beginning of year or period	$ 10.61	$ 10.78	$ 10.38	$ 10.44	$ 10.11	$ 9.68
Net investment income [(a)]	0.04	0.08	0.14	0.14	0.14	0.31
Net realized/unrealized gain (loss)	0.09	(0.09)	0.46	(0.02)	0.39	0.95
Total income (loss) from investment operations	0.13	(0.01)	0.60	0.12	0.53	1.26
Dividends from net investment income	(0.05)	(0.16)	(0.20)	(0.18)	(0.17)	(0.36)
Distributions from net realized capital gains	0.00	0.00	0.00	0.00	(0.03)	(0.47)
Total distributions	(0.05)	(0.16)	(0.20)	(0.18)	(0.20)	(0.83)
Net asset value end of year or period	$ 10.69	$ 10.61	$ 10.78	$ 10.38	$ 10.44	$ 10.11
Total return	1.25%	(0.14)%	5.85%	1.11%	5.29%	13.32%
Net assets end of year or period (000s)	$ 1,607,793	$ 1,510,077	$ 1,527,088	$ 1,326,770	$ 1,238,086	$ 890,238
Ratio of expenses to average net assets	0.65%*	0.65%	0.65%	0.65%	0.65%	0.67%
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	0.79%*	0.79%	1.29%	1.37%	1.33%	3.07%
Portfolio turnover rate	144%**	316%**	647%**	456%**	351%**	662%

\+ Unaudited
* Annualized
** The ratio excludes PIMCO Short-Term Floating NAV Portfolio.
(a) Per share amounts based on average number of shares outstanding during the year or period.

(Amounts in thousands, except per share amounts)	June 30, 2014
Assets:	
Investments, at value	
Investments in securities*	$ 1,810,646
Investments in Affiliates	591,462
Financial Derivative Instruments	
Exchange-traded or centrally cleared	933
Over the counter	7,225
Cash	204
Deposits with counterparty	7,921
Foreign currency, at value	1,472
Receivable for investments sold	5,219
Receivable for Portfolio shares sold	15,092
Interest and dividends receivable	10,514
Dividends receivable from Affiliates	135
	2,450,823
Liabilities:	
Borrowings & Other Financing Transactions	
Payable for short sales	$ 5,161
Financial Derivative Instruments	
Exchange-traded or centrally cleared	626
Over the counter	4,700
Payable for investments purchased	122,034
Payable for investments in Affiliates purchased	135
Deposits from counterparty	6,415
Payable for Portfolio shares redeemed	388
Accrued investment advisory fees	456
Accrued supervisory and administrative fees	456
Accrued distribution fees	128
Accrued servicing fees	190
	140,689
Net Assets	$ 2,310,134
Net Assets Consist of:	
Paid in capital	$ 2,293,035
Undistributed net investment income	15,760
Accumulated net realized (loss)	(10,897)
Net unrealized appreciation	12,236
	$ 2,310,134
Net Assets:	
Institutional Class	$ 59,455
Administrative Class	1,607,793
Advisor Class	642,886
Shares Issued and Outstanding:	
Institutional Class	5,564
Administrative Class	150,466
Advisor Class	60,165
Net Asset Value and Redemption Price Per Share Outstanding:	
Institutional Class	$ 10.69
Administrative Class	10.69
Advisor Class	10.69
Cost of Investments in Securities	$ 1,799,236
Cost of Investments in Affiliates	$ 591,420
Cost of Foreign Currency Held	$ 1,461
Proceeds Received on Short Sales	$ 5,137
Cost or Premiums of Financial Derivative Instruments, net	$ 3,278
* Includes repurchase agreements of:	$ 89,579

Statement of Operations PIMCO Low Duration Portfolio

(Unaudited)

(Amounts in thousands)	Six Months Ended June 30, 2014
Investment Income:	
Interest	$ 15,175
Dividends	53
Dividends from Investments in Affiliates	678
Total Income	15,906
Expenses:	
Investment advisory fees	2,758
Supervisory and administrative fees	2,758
Servicing fees - Administrative Class	1,142
Distribution and/or servicing fees - Advisor Class	781
Trustee fees	9
Interest expense	2
Total Expenses	7,450
Net Investment Income	8,456
Net Realized Gain (Loss):	
Investments in securities	4,438
Investments in Affiliates	(92)
Exchange-traded or centrally cleared financial derivative instruments	35
Over the counter financial derivative instruments	2,396
Foreign currency	447
Net Realized Gain	7,224
Net Change in Unrealized Appreciation (Depreciation):	
Investments in securities	9,774
Investments in Affiliates	240
Exchange-traded or centrally cleared financial derivative instruments	(2,645)
Over the counter financial derivative instruments	2,878
Foreign currency assets and liabilities	(1)
Net Change in Unrealized Appreciation	10,246
Net Gain	17,470
Net Increase in Net Assets Resulting from Operations	$ 25,926

Statements of Changes in Net Assets PIMCO Low Duration Portfolio

(Amounts in thousands)	Six Months Ended June 30, 2014 (Unaudited)	Year Ended December 31, 2013
Increase in Net Assets from:		
Operations:		
Net investment income	$ 8,456	$ 16,469
Net realized gain	7,224	7,475
Net change in unrealized appreciation (depreciation)	10,246	(27,559)
Net increase (decrease) resulting from operations	25,926	(3,615)
Distributions to Shareholders:		
From net investment income		
Institutional Class	(333)	(930)
Administrative Class	(7,592)	(21,881)
Advisor Class	(2,806)	(7,780)
Total Distributions	(10,731)	(30,591)
Portfolio Share Transactions:		
Net increase resulting from Portfolio share transactions**	108,867	106,096
Total Increase in Net Assets	124,062	71,890
Net Assets:		
Beginning of period	2,186,072	2,114,182
End of period*	$ 2,310,134	$ 2,186,072
* Including undistributed net investment income of:	$ 15,760	$ 18,035

**See Note 12 in the Notes to Financial Statements.

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
INVESTMENTS IN SECURITIES 78.4%			
BANK LOAN OBLIGATIONS 0.8%			
H.J. Heinz Co.			
3.500% due 06/05/2020	$	17,721	$ 17,873
Total Bank Loan Obligations (Cost $17,683)			**17,873**
CORPORATE BONDS & NOTES 26.0%			
BANKING & FINANCE 17.7%			
AerCap Ireland Capital Ltd.			
2.750% due 05/15/2017		3,800	3,828
Ally Financial, Inc.			
2.427% due 12/01/2014		1,000	1,004
2.750% due 01/30/2017		1,100	1,115
3.125% due 01/15/2016		300	309
3.500% due 07/18/2016		800	827
4.625% due 06/26/2015		2,300	2,378
6.750% due 12/01/2014		4,800	4,915
8.300% due 02/12/2015		2,700	2,818
Banco do Brasil S.A.			
4.500% due 01/22/2015		600	612
Banco Mercantil del Norte S.A.			
4.375% due 07/19/2015		1,600	1,652
Banco Popolare			
3.500% due 03/14/2019	EUR	9,700	13,768
Banco Santander Brasil S.A.			
4.625% due 02/13/2017	$	300	321
Banco Santander Chile			
3.750% due 09/22/2015		2,900	2,990
Bank of America Corp.			
0.991% due 09/15/2026		900	809
1.500% due 10/09/2015		1,800	1,817
4.500% due 04/01/2015		2,400	2,472
5.000% due 01/15/2015		1,300	1,331
5.650% due 05/01/2018		2,300	2,608
6.500% due 08/01/2016		6,500	7,208
Bank of America N.A.			
0.531% due 06/15/2017		23,900	23,641
0.695% due 11/14/2016		3,900	3,910
Bank of Montreal			
1.950% due 01/30/2018		3,100	3,181
Bankia S.A.			
0.532% due 01/25/2016	EUR	2,000	2,709
BBVA U.S. Senior S.A.U.			
4.664% due 10/09/2015	$	2,500	2,614
Bear Stearns Cos. LLC			
5.700% due 11/15/2014		4,700	4,791
CIT Group, Inc.			
4.750% due 02/15/2015		8,800	8,992
Citigroup, Inc.			
1.189% due 07/25/2016		15,400	15,575
5.000% due 09/15/2014		700	706
Commonwealth Bank of Australia			
1.031% due 09/18/2015		1,900	1,917
Cooperatieve Centrale Raiffeisen-Boerenleenbank BA			
0.507% due 11/23/2016		11,300	11,294
Eksportfinans ASA			
1.570% due 02/14/2018	JPY	500,000	4,620
2.000% due 09/15/2015	$	400	401
2.375% due 05/25/2016		4,200	4,210
5.500% due 06/26/2017		1,200	1,290
Export-Import Bank of Korea			
0.977% due 01/14/2017		3,600	3,627
1.250% due 11/20/2015		8,700	8,754
2.030% due 03/21/2015		8,400	8,476

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
FCE Bank PLC			
1.875% due 05/12/2016	EUR	600	$ 840
4.750% due 01/19/2015		400	560
First Horizon National Corp.			
5.375% due 12/15/2015	$	900	952
Ford Motor Credit Co. LLC			
0.675% due 11/08/2016		7,500	7,501
1.006% due 01/17/2017		1,800	1,814
1.329% due 08/28/2014		2,300	2,304
1.700% due 05/09/2016		2,100	2,128
2.750% due 05/15/2015		3,600	3,670
3.000% due 06/12/2017		2,700	2,818
3.875% due 01/15/2015		10,500	10,689
5.625% due 09/15/2015		1,600	1,693
7.000% due 04/15/2015		900	945
8.000% due 12/15/2016		2,600	3,023
8.700% due 10/01/2014		900	919
General Electric Capital Corp.			
0.457% due 01/14/2016		3,900	3,906
Goldman Sachs Group, Inc.			
5.000% due 10/01/2014		10,700	10,823
HSBC Finance Corp.			
0.657% due 06/01/2016		700	701
HSBC USA, Inc.			
2.375% due 02/13/2015		800	810
Industrial Bank of Korea			
2.375% due 07/17/2017		1,100	1,125
3.750% due 09/29/2016		2,200	2,331
International Lease Finance Corp.			
5.750% due 05/15/2016		900	966
6.500% due 09/01/2014		11,200	11,298
8.625% due 09/15/2015		500	543
Intesa Sanpaolo SpA			
3.125% due 01/15/2016		9,645	9,917
JPMorgan Chase & Co.			
1.054% due 05/30/2017	GBP	6,300	10,644
1.281% due 03/20/2015	$	9,800	9,865
1.355% due 09/22/2015		5,800	5,865
3.150% due 07/05/2016		1,800	1,877
3.400% due 06/24/2015		3,500	3,602
3.700% due 01/20/2015		14,700	14,962
JPMorgan Chase Bank N.A.			
0.863% due 05/31/2017	EUR	2,400	3,278
6.000% due 10/01/2017	$	1,000	1,137
Korea Development Bank			
3.250% due 03/09/2016		5,300	5,505
Metropolitan Life Global Funding			
0.607% due 04/10/2017		7,300	7,321
1.300% due 04/10/2017		3,600	3,610
Morgan Stanley			
0.706% due 10/15/2015		2,600	2,606
4.100% due 01/26/2015		16,700	17,047
National Bank of Canada			
1.500% due 06/26/2015		1,600	1,619
Nordea Bank AB			
0.590% due 04/04/2017		4,900	4,910
Pacific Life Global Funding CPI Linked Bond			
4.247% due 06/02/2018		3,500	3,495
Prudential Covered Trust			
2.997% due 09/30/2015		2,640	2,705
Qatari Diar Finance Co.			
3.500% due 07/21/2015		4,300	4,420
RCI Banque S.A.			
5.625% due 10/05/2015	EUR	700	1,017
Shinhan Bank			
0.880% due 04/08/2017	$	3,600	3,613

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
SLM Corp.			
3.875% due 09/10/2015	$	3,848	$ 3,944
5.000% due 04/15/2015		1,200	1,236
6.000% due 01/25/2017		1,000	1,090
6.250% due 01/25/2016		13,765	14,677
Sumitomo Mitsui Banking Corp.			
1.350% due 07/18/2015		12,300	12,403
Union Bank N.A.			
0.624% due 05/05/2017		6,600	6,601
0.984% due 09/26/2016		3,700	3,739
Wachovia Corp.			
0.596% due 10/15/2016		5,000	4,994
Wells Fargo & Co.			
0.428% due 10/28/2015		4,500	4,502
			408,050
INDUSTRIALS 5.2%			
AbbVie, Inc.			
0.983% due 11/06/2015		3,715	3,747
Amgen, Inc.			
1.875% due 11/15/2014		2,100	2,112
2.500% due 11/15/2016		2,400	2,487
Apple, Inc.			
0.473% due 05/03/2018		1,400	1,401
Canadian Natural Resources Ltd.			
0.609% due 03/30/2016		1,100	1,103
CNPC General Capital Ltd.			
1.450% due 04/16/2016		3,400	3,409
Comcast Corp.			
5.700% due 07/01/2019		700	821
5.900% due 03/15/2016		4,550	4,955
Daimler Finance North America LLC			
0.580% due 03/10/2017		8,800	8,815
0.829% due 01/09/2015		7,890	7,909
1.250% due 01/11/2016		2,740	2,765
1.875% due 09/15/2014		1,675	1,680
2.300% due 01/09/2015		200	202
DISH DBS Corp.			
6.625% due 10/01/2014		2,900	2,940
7.125% due 02/01/2016		1,800	1,951
7.750% due 05/31/2015		1,500	1,593
Florida Gas Transmission Co. LLC			
4.000% due 07/15/2015		1,700	1,750
General Electric Co.			
0.850% due 10/09/2015		2,200	2,211
General Mills, Inc.			
0.527% due 01/29/2016		8,900	8,926
HCA, Inc.			
6.375% due 01/15/2015		1,300	1,334
Imperial Tobacco Finance PLC			
7.250% due 09/15/2014	EUR	4,600	6,371
Kraft Foods Group, Inc.			
1.625% due 06/04/2015	$	3,880	3,921
Kroger Co.			
0.756% due 10/17/2016		5,600	5,616
Merck Sharp & Dohme Corp.			
5.000% due 06/30/2019		1,400	1,595
MGM Resorts International			
6.625% due 07/15/2015		1,000	1,052
6.875% due 04/01/2016		500	546
7.500% due 06/01/2016		1,700	1,881
7.625% due 01/15/2017		500	566
10.000% due 11/01/2016		400	475
NBCUniversal Enterprise, Inc.			
0.763% due 04/15/2016		100	101

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Nissan Motor Acceptance Corp.		
1.000% due 03/15/2016	$ 700	$ 702
PepsiCo, Inc.		
0.750% due 03/05/2015	1,600	1,605
Sinopec Group Overseas Development Ltd.		
2.750% due 05/17/2017	6,000	6,188
Telefonica Emisiones S.A.U.		
5.375% due 02/02/2018	GBP 1,300	2,428
6.421% due 06/20/2016	$ 1,600	1,762
Thermo Fisher Scientific, Inc.		
1.300% due 02/01/2017	6,600	6,613
Total Capital Canada Ltd.		
0.606% due 01/15/2016	3,814	3,833
Viacom, Inc.		
1.250% due 02/27/2015	3,000	3,017
Volkswagen International Finance NV		
0.829% due 11/20/2014	9,000	9,020
		119,403

UTILITIES 3.1%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
AT&T, Inc.		
0.654% due 03/30/2017	6,800	6,818
2.950% due 05/15/2016	900	936
BP Capital Markets PLC		
4.500% due 10/01/2020	500	554
Centrais Eletricas Brasileiras S.A.		
6.875% due 07/30/2019	700	780
Consumers Energy Co.		
6.700% due 09/15/2019	200	243
Dayton Power & Light Co.		
1.875% due 09/15/2016	1,000	1,017
Electricite de France		
6.500% due 01/26/2019	100	119
Enel Finance International NV		
3.875% due 10/07/2014	2,000	2,016
KT Corp.		
1.750% due 04/22/2017	3,700	3,713
Orange S.A.		
2.750% due 09/14/2016	2,500	2,595
Petrobras Global Finance BV		
1.849% due 05/20/2016	7,500	7,528
Qtel International Finance Ltd.		
3.375% due 10/14/2016	2,300	2,417
Rosneft Finance S.A.		
7.500% due 07/18/2016	400	440
Sprint Communications, Inc.		
9.125% due 03/01/2017	700	822
Verizon Communications, Inc.		
1.761% due 09/15/2016	26,194	26,930
1.981% due 09/14/2018	800	845
2.500% due 09/15/2016	12,600	12,993
3.650% due 09/14/2018	1,000	1,069
		71,835
Total Corporate Bonds & Notes (Cost $593,675)		**599,288**

MUNICIPAL BONDS & NOTES 0.4%

NEW JERSEY 0.4%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
New Jersey Economic Development Authority Revenue Notes, Series 2014		
1.096% due 06/15/2016	9,525	9,527

TEXAS 0.0%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
North Texas Higher Education Authority, Inc. Revenue Bonds, Series 2011		
1.333% due 04/01/2040	$ 413	$ 419
Total Municipal Bonds & Notes (Cost $9,948)		**9,946**

U.S. GOVERNMENT AGENCIES 2.3%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Fannie Mae		
0.212% due 12/25/2036 - 07/25/2037	739	722
0.462% due 04/25/2037	406	405
0.500% due 03/25/2044	111	111
0.502% due 07/25/2037 - 09/25/2042	1,479	1,474
0.652% due 12/25/2022	73	73
0.892% due 03/25/2040	3,061	3,106
0.952% due 04/25/2023	80	81
1.000% due 01/25/2043	728	681
1.002% due 02/25/2023	4	4
1.052% due 05/25/2022	9	9
1.054% due 06/17/2027	39	40
1.324% due 07/01/2042 - 06/01/2043	398	410
1.374% due 09/01/2041	265	277
1.524% due 09/01/2040	1	1
1.979% due 11/01/2035	69	73
2.167% due 09/01/2035	426	454
2.289% due 07/01/2035	74	78
4.376% due 12/01/2036	25	26
4.500% due 03/01/2018 - 04/01/2042	8,388	8,944
4.508% due 09/01/2034	16	17
5.000% due 05/01/2027 - 12/01/2038	366	407
5.500% due 12/01/2027 - 03/01/2040	2,582	2,896
5.913% due 12/25/2042	10	11
6.000% due 03/01/2017 - 01/01/2039	5,768	6,507
6.500% due 04/01/2036	169	191
FDIC Structured Sale Guaranteed Notes		
2.980% due 12/06/2020	2,176	2,261
Federal Housing Administration		
7.430% due 10/01/2020	2	2
Freddie Mac		
0.192% due 12/25/2036	1,048	1,044
0.302% due 07/15/2019 - 08/15/2019	983	984
0.412% due 08/25/2031	163	159
0.452% due 05/15/2036	419	418
0.552% due 06/15/2018	21	21
1.319% due 02/25/2045	334	341
2.000% due 11/15/2026	14,457	14,645
2.403% due 09/01/2035	455	486
2.418% due 07/01/2035	169	180
5.000% due 05/01/2024 - 12/01/2041	998	1,109
5.500% due 12/01/2022 - 08/15/2030	2	2
6.000% due 09/01/2016 - 03/01/2038	519	585
6.500% due 07/25/2043	69	78
Ginnie Mae		
1.940% due 02/20/2041	1,708	1,725
6.000% due 09/15/2017	669	702
Small Business Administration		
5.600% due 09/01/2028	$ 567	$ 629
Total U.S. Government Agencies (Cost $51,450)		**52,369**

U.S. TREASURY OBLIGATIONS 6.6%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
U.S. Treasury Inflation Protected Securities (c)		
0.125% due 04/15/2018	513	530
0.125% due 04/15/2019	101	104
0.125% due 07/15/2022	78,444	78,965
0.625% due 07/15/2021	12,095	12,742
1.125% due 01/15/2021	10,294	11,153
1.250% due 07/15/2020	12,282	13,464
1.375% due 01/15/2020	3,069	3,367
2.000% due 07/15/2014 (g)(i)	17,857	17,899
U.S. Treasury Notes		
0.109% due 04/30/2016 (i)	14,300	14,304
Total U.S. Treasury Obligations (Cost $158,941)		**152,528**

MORTGAGE-BACKED SECURITIES 7.0%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Adjustable Rate Mortgage Trust		
2.737% due 09/25/2035	1,187	1,087
American Home Mortgage Investment Trust		
2.173% due 10/25/2034	331	334
2.322% due 02/25/2045	187	189
Banc of America Commercial Mortgage Trust		
5.634% due 04/10/2049	112	113
5.730% due 04/10/2049	2,547	2,783
Banc of America Funding Corp.		
0.432% due 07/25/2037	1,379	1,208
2.938% due 01/20/2047 ^	564	442
Banc of America Mortgage Trust		
2.512% due 07/25/2034	906	919
2.719% due 05/25/2033	526	530
2.843% due 08/25/2034	2,950	2,969
6.500% due 10/25/2031	9	10
BCAP LLC Trust		
0.322% due 09/26/2035	703	694
Bear Stearns Adjustable Rate Mortgage Trust		
2.234% due 04/25/2033	7	7
2.250% due 08/25/2035	1,481	1,507
2.504% due 04/25/2033	6	6
2.528% due 03/25/2035	1,737	1,766
2.564% due 01/25/2035	211	210
2.667% due 02/25/2033	1	1
2.685% due 08/25/2035 ^	434	383
2.737% due 01/25/2034	27	28
2.757% due 07/25/2034	388	388
5.066% due 01/25/2035	4,938	5,004
Bear Stearns Alt-A Trust		
0.312% due 02/25/2034	543	504
Bear Stearns Commercial Mortgage Securities Trust		
5.331% due 02/11/2044	385	416
Bear Stearns Structured Products, Inc.		
2.096% due 01/26/2036	1,189	995
2.488% due 12/26/2046	645	453
Chevy Chase Funding LLC Mortgage-Backed Certificates		
0.432% due 01/25/2035	85	77
Citigroup Mortgage Loan Trust, Inc.		
2.500% due 05/25/2035	207	204
2.610% due 08/25/2035	921	525
Citigroup/Deutsche Bank Commercial Mortgage Trust		
5.289% due 12/11/2049	16,194	17,414
5.481% due 01/15/2046	3,595	3,804

See Accompanying Notes

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Countrywide Alternative Loan Trust		
0.332% due 05/25/2047	$ 645	$ 561
6.000% due 10/25/2033	14	15
Countrywide Home Loan Mortgage Pass-Through Trust		
2.376% due 02/20/2036	616	536
2.465% due 02/20/2035	1,200	1,194
2.498% due 11/25/2034	738	699
2.524% due 11/20/2034	1,481	1,433
Credit Suisse Commercial Mortgage Trust		
5.297% due 12/15/2039	3,668	3,984
5.448% due 01/15/2049	10	10
5.858% due 03/15/2039	14,338	15,320
5.982% due 06/15/2038	1,348	1,441
Credit Suisse First Boston Mortgage Securities Corp.		
0.799% due 03/25/2032	1	1
Credit Suisse Mortgage Capital Certificates		
2.653% due 09/27/2036	5,459	5,505
2.659% due 09/26/2047	693	688
DBRR Trust		
0.853% due 02/25/2045	1,763	1,763
Deutsche Mortgage Securities, Inc. Re-REMIC Trust Certificates		
5.226% due 06/26/2035	680	692
Epic Opera Arlington Ltd.		
0.778% due 07/28/2016	GBP 2,013	3,443
First Horizon Alternative Mortgage Securities Trust		
2.197% due 09/25/2034	$ 1,731	1,709
First Horizon Mortgage Pass-Through Trust		
2.612% due 08/25/2035	485	461
2.625% due 02/25/2035	2,634	2,655
GE Commercial Mortgage Corp. Trust		
5.483% due 12/10/2049	7,299	8,017
GMAC Mortgage Corp. Loan Trust		
2.697% due 11/19/2035	279	269
Granite Master Issuer PLC		
0.293% due 12/20/2054	3,221	3,196
0.353% due 12/20/2054	501	498
0.814% due 12/20/2054	GBP 522	891
Granite Mortgages PLC		
0.707% due 01/20/2044	EUR 83	113
0.908% due 01/20/2044	GBP 72	123
0.934% due 09/20/2044	511	873
Great Hall Mortgages PLC		
0.361% due 06/18/2039	$ 1,571	1,499
Greenpoint Mortgage Pass-Through Certificates		
2.795% due 10/25/2033	1,365	1,348
Greenwich Capital Commercial Funding Corp.		
4.799% due 08/10/2042	200	202
5.444% due 03/10/2039	1,900	2,075
GSR Mortgage Loan Trust		
2.657% due 09/25/2035	973	984
2.696% due 09/25/2034	182	174
HarborView Mortgage Loan Trust		
0.375% due 05/19/2035	138	122
2.564% due 07/19/2035	741	697
Hercules Eclipse PLC		
0.769% due 10/25/2018	GBP 1,873	3,127
Holmes Master Issuer PLC		
1.678% due 10/15/2054	EUR 445	610
Impac CMB Trust		
1.152% due 07/25/2033	$ 203	190
IndyMac Mortgage Loan Trust		
2.509% due 12/25/2034	372	348
JPMorgan Chase Commercial Mortgage Securities Trust		
4.654% due 01/12/2037	745	745
5.257% due 05/15/2047	7,221	7,669
5.397% due 05/15/2045	2,367	2,559
5.420% due 01/15/2049	$ 569	$ 622
5.708% due 03/18/2051	2,385	2,560
5.882% due 02/15/2051	1,300	1,442
JPMorgan Mortgage Trust		
2.952% due 02/25/2035	120	119
5.750% due 01/25/2036 ^	35	33
LB-UBS Commercial Mortgage Trust		
5.342% due 09/15/2039	1,436	1,555
MASTR Asset Securitization Trust		
5.500% due 09/25/2033	10	11
Mellon Residential Funding Corp. Mortgage Pass-Through Trust		
0.632% due 06/15/2030	132	131
Merrill Lynch Mortgage Investors Trust		
0.362% due 02/25/2036	420	388
0.402% due 11/25/2035	299	292
1.151% due 10/25/2035	203	195
1.959% due 01/25/2029	11	11
2.400% due 10/25/2035	701	713
Merrill Lynch/Countrywide Commercial Mortgage Trust		
5.485% due 03/12/2051	2,700	2,968
Morgan Stanley Capital Trust		
5.598% due 03/12/2044	2,120	2,231
Prime Mortgage Trust		
0.552% due 02/25/2034	12	12
Residential Funding Mortgage Securities, Inc. Trust		
3.060% due 09/25/2035 ^	1,172	991
Salomon Brothers Mortgage Securities, Inc.		
7.000% due 12/25/2018	22	24
Structured Adjustable Rate Mortgage Loan Trust		
1.523% due 01/25/2035	340	277
2.467% due 02/25/2034	406	413
2.472% due 08/25/2034	613	606
2.518% due 08/25/2035	339	320
Structured Asset Mortgage Investments Trust		
0.432% due 02/25/2036	195	157
0.815% due 09/19/2032	5	5
Structured Asset Securities Corp. Trust		
2.628% due 10/28/2035	210	200
Vulcan European Loan Conduit Ltd.		
0.615% due 05/15/2017	EUR 1,392	1,881
Wachovia Bank Commercial Mortgage Trust		
0.232% due 06/15/2020	$ 855	850
0.292% due 06/15/2020	6,300	6,196
5.421% due 04/15/2047	146	146
5.749% due 07/15/2045	1,201	1,304
WaMu Mortgage Pass-Through Certificates Trust		
0.422% due 12/25/2045	161	154
0.492% due 01/25/2045	1,170	1,100
0.853% due 01/25/2047	398	374
1.323% due 11/25/2042	62	61
1.523% due 06/25/2042	40	38
1.523% due 08/25/2042	161	155
1.932% due 02/27/2034	23	23
Washington Mutual Mortgage Loan Trust		
1.320% due 05/25/2041	21	21
Wells Fargo Mortgage-Backed Securities Trust		
2.613% due 03/25/2035	430	443
2.613% due 03/25/2036	518	520
2.615% due 12/25/2034	462	474
2.615% due 01/25/2035	587	591
2.617% due 09/25/2034	8,325	8,558
Total Mortgage-Backed Securities (Cost $160,633)		**162,574**
ASSET-BACKED SECURITIES 6.4%		
ACA CLO Ltd.		
0.479% due 07/25/2018	$ 2,056	$ 2,053
ACE Securities Corp. Home Equity Loan Trust		
0.212% due 10/25/2036	119	43
Aimco CLO		
0.478% due 10/20/2019	2,246	2,234
ALM Ltd.		
1.466% due 07/18/2022	1,100	1,099
American Money Management Corp. CLO Ltd.		
0.478% due 12/19/2019	952	952
Ameriquest Mortgage Securities, Inc. Asset-Backed Pass-Through Certificates		
0.652% due 09/25/2035	7,100	6,209
Amortizing Residential Collateral Trust		
0.732% due 07/25/2032	13	12
Apidos CDO Ltd.		
0.488% due 07/27/2017	22	22
Ares VIR CLO Ltd.		
0.650% due 03/12/2018	6,000	5,949
Asset-Backed Funding Certificates Trust		
0.827% due 06/25/2035	10,799	9,730
Asset-Backed Securities Corp. Home Equity Loan Trust		
0.702% due 09/25/2034	143	142
1.802% due 03/15/2032	138	132
Avenue CLO Ltd.		
0.488% due 07/20/2018	337	337
Avoca CLO PLC		
0.600% due 01/16/2023	EUR 1,355	1,842
Bacchus Ltd.		
0.468% due 01/20/2019	$ 2,210	2,208
Bear Stearns Asset-Backed Securities Trust		
1.152% due 10/25/2037	2,578	2,412
Cadogan Square CLO BV		
0.627% due 01/17/2023	EUR 2,752	3,721
Carlyle High Yield Partners Ltd.		
0.453% due 04/19/2022	$ 984	963
Citibank Omni Master Trust		
2.902% due 08/15/2018	1,500	1,505
Citigroup Mortgage Loan Trust, Inc.		
0.632% due 09/25/2035 ^	6,200	5,523
Cougar CLO PLC		
0.639% due 07/15/2020	EUR 3,910	5,365
Countrywide Asset-Backed Certificates		
0.332% due 09/25/2036	$ 4,783	4,661
0.410% due 05/25/2036	445	445
0.632% due 12/25/2031	35	26
0.852% due 12/25/2033	2,102	1,963
0.952% due 03/25/2033	1,482	1,373
Credit Suisse First Boston Mortgage Securities Corp.		
0.770% due 01/25/2032	8	8
Duane Street CLO Ltd.		
0.455% due 11/14/2021	832	820
Educational Services of America, Inc.		
1.302% due 09/25/2040	2,633	2,679
Equity One Mortgage Pass-Through Trust		
0.712% due 11/25/2032	6	6
First Franklin Mortgage Loan Trust		
0.632% due 05/25/2035	300	278
Four Corners CLO Ltd.		
0.504% due 01/26/2020	2,075	2,065
Franklin CLO Ltd.		
0.491% due 06/15/2018	3,099	3,077
Galaxy CLO Ltd.		
1.519% due 08/20/2022	1,100	1,095

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
GE-WMC Mortgage Securities Trust			
0.192% due 08/25/2036	$	17	$ 8
Goldentree Loan Opportunities Ltd.			
0.923% due 10/18/2021		1,215	1,213
Gulf Stream Compass CLO Ltd.			
0.489% due 01/24/2020		563	564
HSBC Home Equity Loan Trust			
0.443% due 01/20/2034		902	899
Hyde Park CDO BV			
0.583% due 06/14/2022	EUR	1,596	2,166
JPMorgan Mortgage Acquisition Corp.			
0.332% due 02/25/2036	$	902	865
0.382% due 05/25/2035		10,117	9,852
Jubilee CDO BV			
0.626% due 08/21/2021	EUR	812	1,100
Landmark CDO Ltd.			
0.501% due 07/15/2018	$	1,079	1,080
Leopard CLO BV			
0.677% due 04/21/2020	EUR	142	194
Long Beach Mortgage Loan Trust			
0.712% due 10/25/2034	$	34	31
Madison Park Funding Ltd.			
1.481% due 06/15/2022		800	798
Massachusetts Educational Financing Authority			
1.179% due 04/25/2038		771	778
Mercator CLO PLC			
0.556% due 02/18/2024	EUR	1,276	1,729
Merrill Lynch Mortgage Investors Trust			
0.352% due 08/25/2036	$	717	703
0.442% due 08/25/2036		700	637
Morgan Stanley Investment Management Croton Ltd.			
0.486% due 01/15/2018		227	227
MT Wilson CLO Ltd.			
0.458% due 07/11/2020		2,451	2,445
Nob Hill CLO Ltd.			
0.474% due 08/15/2018		1,064	1,062
Oak Hill Credit Partners Ltd.			
0.476% due 05/17/2021		2,108	2,104
OCI Euro Fund BV			
0.597% due 08/15/2024	EUR	2,700	3,604
Octagon Investment Partners Ltd.			
0.466% due 04/23/2020	$	3,162	3,142
Opteum Mortgage Acceptance Corp. Asset-Backed Pass-Through Certificates			
0.432% due 12/25/2035		909	822
0.462% due 04/25/2035		3,220	3,191
Pacifica CDO Corp.			
0.488% due 01/26/2020		797	795
Panhandle-Plains Higher Education Authority, Inc.			
1.365% due 10/01/2035		1,681	1,706
Prospero CLO BV			
0.567% due 10/20/2022	EUR	1,426	1,930
RAAC Trust			
0.632% due 03/25/2037	$	900	870
Renaissance Home Equity Loan Trust			
0.652% due 12/25/2033		4,237	4,127
Residential Asset Securities Corp. Trust			
0.472% due 01/25/2036		6,300	6,061
SLC Student Loan Trust			
0.304% due 11/15/2021		282	281
SLM Private Education Loan Trust			
0.902% due 10/16/2023		2,146	2,156
1.202% due 06/15/2023		2,490	2,505
1.252% due 12/15/2021		764	767
SLM Student Loan Trust			
0.411% due 03/15/2024		1,806	1,792
0.421% due 12/15/2023		900	890

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
1.729% due 04/25/2023	$	652	$ 675
South Carolina Student Loan Corp.			
0.977% due 03/02/2020		2,000	2,013
Specialty Underwriting & Residential Finance Trust			
0.542% due 12/25/2036		4,800	3,840
Stanfield Bristol CLO Ltd.			
0.484% due 10/15/2019		461	462
Stone Tower CLO Ltd.			
0.456% due 04/17/2021		2,000	1,966
Structured Asset Investment Loan Trust			
0.512% due 10/25/2035		488	474
0.857% due 03/25/2034		681	631
1.127% due 10/25/2033		1,362	1,305
Titrisocram			
1.013% due 05/25/2020	EUR	5	6
Wells Fargo Home Equity Asset-Backed Securities Trust			
0.412% due 05/25/2036	$	1,100	970
Wood Street CLO BV			
0.657% due 11/22/2021	EUR	852	1,157
Total Asset-Backed Securities (Cost $142,972)			**147,542**
SOVEREIGN ISSUES 18.7%			
Autonomous Community of Catalonia			
4.750% due 06/04/2018		2,700	4,110
Autonomous Community of Valencia			
4.375% due 07/16/2015		2,000	2,834
Brazil Letras do Tesouro Nacional			
0.000% due 04/01/2015	BRL	14,000	5,853
0.000% due 07/01/2015		18,000	7,334
0.000% due 01/01/2017		13,000	4,466
Hydro-Quebec			
2.000% due 06/30/2016	$	12,800	13,147
Italy Buoni Poliennali Del Tesoro			
1.150% due 05/15/2017	EUR	73,400	101,401
2.250% due 05/15/2016		32,500	45,870
2.750% due 12/01/2015		1,900	2,685
3.000% due 06/15/2015		9,600	13,473
3.000% due 11/01/2015		4,700	6,651
3.750% due 08/01/2015		26,600	37,716
3.750% due 04/15/2016		2,400	3,472
3.750% due 08/01/2016		3,000	4,373
4.500% due 07/15/2015		33,700	48,099
Italy Certificati Di Credito Del Tesoro			
0.000% due 06/30/2015		2,100	2,864
Italy Certificati di Credito Del Tesoro			
0.000% due 04/29/2016		1,700	2,301
Mexico Government International Bond			
4.000% due 11/15/2040 (c)	MXN	3,079	269
5.000% due 06/16/2016 (c)		6,670	565
Province of Ontario			
0.950% due 05/26/2015	$	13,900	13,994
1.000% due 07/22/2016		2,800	2,820
1.100% due 10/25/2017		13,600	13,549
4.300% due 03/08/2017	CAD	1,300	1,310
Republic of Korea			
4.875% due 09/22/2014	$	600	606
Spain Government International Bond			
3.000% due 04/30/2015	EUR	4,700	6,583
3.150% due 01/31/2016		5,800	8,286
3.250% due 04/30/2016		600	863
3.300% due 07/30/2016		2,500	3,620
3.750% due 10/31/2015		15,100	21,611
4.000% due 07/30/2015		36,400	51,829
Total Sovereign Issues (Cost $428,564)			**432,554**

		SHARES	MARKET VALUE (000S)
CONVERTIBLE PREFERRED SECURITIES 0.0%			
INDUSTRIALS 0.0%			
Motors Liquidation Co.			
5.250% due 03/06/2032 (a)		4,000	$ 0
Total Convertible Preferred Securities (Cost $0)			**0**
		PRINCIPAL AMOUNT (000S)	
SHORT-TERM INSTRUMENTS 10.2%			
CERTIFICATES OF DEPOSIT 2.5%			
Credit Suisse			
0.465% due 03/17/2015	$	1,400	1,400
Intesa Sanpaolo SpA			
1.608% due 04/11/2016		14,600	14,742
Itau Unibanco Holding S.A.			
1.419% due 10/31/2014		20,000	19,927
1.601% due 06/21/2016		2,200	2,200
Royal Bank of Canada			
1.370% due 05/07/2015	CAD	21,500	20,140
			58,409
COMMERCIAL PAPER 3.5%			
Ford Motor Credit Co.			
0.880% due 07/14/2014	$	2,000	1,999
0.900% due 07/01/2014		800	800
0.900% due 08/05/2014		2,000	1,998
0.900% due 09/16/2014		6,800	6,793
Glencore Funding LLC			
0.450% due 08/25/2014		8,900	8,894
0.600% due 09/09/2014		16,200	16,191
Noble Corp.			
0.425% due 07/28/2014		26,100	26,092
Vodafone Group PLC			
0.600% due 06/29/2015		18,000	17,909
			80,676
REPURCHASE AGREEMENTS (d) 3.9%			
			89,579
SHORT-TERM NOTES 0.2%			
Korea Development Bank			
0.770% due 08/20/2014		4,300	4,300
U.S. TREASURY BILLS 0.1%			
0.039% due 10/23/2014 - 11/06/2014 (b)(e)(g)		3,008	3,008
Total Short-Term Instruments (Cost $235,370)			**235,972**
Total Investments in Securities (Cost $1,799,236)			**1,810,646**
		SHARES	
INVESTMENTS IN AFFILIATES 25.6%			
SHORT-TERM INSTRUMENTS 25.6%			
CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES 25.6%			
PIMCO Short-Term Floating NAV Portfolio		109	1

	SHARES	MARKET VALUE (000S)
PIMCO Short-Term Floating NAV Portfolio III	59,193,411	$ 591,461
Total Short-Term Instruments (Cost $591,420)		**591,462**
Total Investments in Affiliates (Cost $591,420)		**591,462**
Total Investments 104.0% (Cost $2,390,656)		**$ 2,402,108**
Financial Derivative Instruments (f)(h) 0.1% (Cost or Premiums, net $3,278)		**2,832**
Other Assets and Liabilities, net (4.1%)		**(94,806)**
Net Assets 100.0%		**$ 2,310,134**

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) Security did not produce income within the last twelve months.

(b) Coupon represents a weighted average yield to maturity.

(c) Principal amount of security is adjusted for inflation.

BORROWINGS AND OTHER FINANCING TRANSACTIONS

(d) REPURCHASE AGREEMENTS:

Counterparty	Lending Rate	Settlement Date	Maturity Date	Principal Amount	Collateralized By	Collateral Received, at Value	Repurchase Agreements, at Value	Repurchase Agreement Proceeds to be Received [(1)]
BCY	0.130%	06/30/2014	07/01/2014	$ 17,400	U.S. Treasury Notes 2.000% due 02/28/2021	$ (17,755)	$ 17,400	$ 17,400
BOS	0.140%	06/30/2014	07/01/2014	6,600	U.S. Treasury Notes 1.625% due 06/30/2019	(6,734)	6,600	6,600
JPS	0.200%	06/30/2014	07/01/2014	6,000	Federal Home Loan Bank 0.420% due 06/06/2016	(6,129)	6,000	6,000
NMO	0.150%	06/30/2014	07/01/2014	56,500	U.S. Treasury Bills 0.047% due 12/18/2014	(6,633)	56,500	56,500
					U.S. Treasury Notes 3.250% due 12/31/2016	(51,811)		
SSB	0.000%	06/30/2014	07/01/2014	3,079	Freddie Mac 2.000% due 01/30/2023	(3,141)	3,079	3,079
Total Repurchase Agreements						**$ (92,203)**	**$ 89,579**	**$ 89,579**

(1) Includes accrued interest.

As of June 30, 2014, there were no open reverse repurchase agreements or sale-buyback transactions. The average amount of borrowings outstanding during the period ended June 30, 2014 was $25,106 at a weighted average interest rate of (0.759%).

SHORT SALES:

Counterparty	Description	Coupon	Maturity Date	Principal Amount	Proceeds	Payable for Short Sales
BPG	Freddie Mac	5.000%	07/01/2044	$ 500	$ (549)	$ (553)
FOB	Fannie Mae	5.000%	07/01/2044	100	(110)	(111)
	Fannie Mae	6.000%	07/01/2044	3,000	(3,367)	(3,378)
GSC	Fannie Mae	5.500%	07/01/2044	1,000	(1,111)	(1,119)
Total Short Sales					**$ (5,137)**	**$ (5,161)**

BORROWINGS AND OTHER FINANCING TRANSACTIONS SUMMARY

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, 2014:

(e) Securities with an aggregate market value of $10 have been pledged as collateral under the terms of the following master agreements as of June 30, 2014.

Counterparty	Repurchase Agreement Proceeds to be Received	Payable for Reverse Repurchase Agreements	Payable for Sale-Buyback Transactions	Payable for Short Sales	Total Borrowings and Other Financing Transactions	Collateral (Received)/ Pledged	Net Exposure [2]
Global/Master Repurchase Agreement							
BCY	$ 17,400	$ 0	$ 0	$ 0	$ 17,400	$ (17,755)	$ (355)
BOS	6,600	0	0	0	6,600	(6,734)	(134)
JPS	6,000	0	0	0	6,000	(6,129)	(129)
NMO	56,500	0	0	0	56,500	(58,444)	(1,944)
SSB	3,079	0	0	0	3,079	(3,141)	(62)
Master Securities Forward Transaction Agreement							
BPG	0	0	0	(553)	(553)	0	(553)
FOB	0	0	0	(3,489)	(3,489)	10	(3,479)
GSC	0	0	0	(1,119)	(1,119)	0	(1,119)
Total Borrowings and Other Financing Transactions	**$ 89,579**	**$ 0**	**$ 0**	**$ (5,161)**			

[2] Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. 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.

(f) FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED

FUTURES CONTRACTS:

Description	Type	Expiration Month	# of Contracts	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
90-Day Eurodollar December Futures	Long	12/2015	7,254	$ 933	$ 363	$ 0
90-Day Eurodollar December Futures	Long	12/2016	28	6	1	0
90-Day Eurodollar June Futures	Long	06/2016	227	113	11	0
90-Day Eurodollar March Futures	Long	03/2016	1,054	264	66	0
90-Day Eurodollar September Futures	Long	09/2015	5,462	2,988	205	0
90-Day Eurodollar September Futures	Long	09/2016	97	12	5	0
U.S. Treasury 5-Year Note September Futures	Long	09/2014	1,746	(203)	123	0
Total Futures Contracts				**$ 4,113**	**$ 774**	**$ 0**

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - SELL PROTECTION [1]

Reference Entity	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2014	Notional Amount [2]	Market Value [3]	Unrealized Appreciation	Variation Margin Asset	Variation Margin Liability
General Electric Capital Corp.	1.000%	06/20/2016	0.296%	$ 4,700	$ 71	$ 1	$ 0	$ (1)
General Electric Capital Corp.	1.000%	06/20/2017	0.332%	1,900	41	3	0	0
					$ 112	$ 4	$ 0	$ (1)

CREDIT DEFAULT SWAPS ON CREDIT INDICES - SELL PROTECTION [1]

Index/Tranches	Fixed Deal Receive Rate	Maturity Date	Notional Amount [2]	Market Value [3]	Unrealized Appreciation	Variation Margin Asset	Variation Margin Liability
CDX.HY-22 5-Year Index	5.000%	06/20/2019	$ 62,667	$ 5,523	$ 1,096	$ 0	$ (87)
CDX.IG-22 5-Year Index	1.000%	06/20/2019	84,500	1,694	361	0	(38)
iTraxx Europe 21 5-Year Index	1.000%	06/20/2019	EUR 15,750	403	195	0	(23)
				$ 7,620	$ 1,652	$ 0	$ (148)

[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] 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.

 See Accompanying Notes

(3) 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 indices' 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	Notional Amount	Market Value	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
Pay	3-Month USD-LIBOR	1.500%	03/18/2016	$ 343,100	$ 2,968	$ 517	$ 44	$ 0
Pay	3-Month USD-LIBOR	3.000%	09/21/2017	10,000	95	79	1	0
Receive	3-Month USD-LIBOR	2.750%	06/19/2043	12,300	1,324	587	0	(66)
Receive	3-Month USD-LIBOR	3.500%	12/18/2043	69,100	(2,728)	(5,473)	0	(411)
Pay	28-Day MXN-TIIE	5.500%	09/13/2017	MXN 129,000	385	45	103	0
Pay	28-Day MXN-TIIE	4.955%	06/24/2019	360,000	11	11	11	0
					$ 2,055	$ (4,234)	$ 159	$ (477)
Total Swap Agreements					**$ 9,787**	**$ (2,578)**	**$ 159**	**$ (626)**

FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED SUMMARY

The following is a summary of the market value and variation margin of Exchange-Traded or Centrally Cleared Financial Derivative Instruments as of June 30, 2014:

(g) Securities with an aggregate market value of $16,529 and cash of $7,921 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of June 30, 2014. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

	Financial Derivative Assets				Financial Derivative Liabilities			
	Market Value	Variation Margin Asset			Market Value	Variation Margin Liability		
	Purchased Options	Futures	Swap Agreements	Total	Written Options	Futures	Swap Agreements	Total
Total Exchange-Traded or Centrally Cleared	**$ 0**	**$ 774**	**$ 159**	**$ 933**	**$ 0**	**$ 0**	**$ (626)**	**$ (626)**

(h) FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER

FORWARD FOREIGN CURRENCY CONTRACTS:

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Unrealized Appreciation/ (Depreciation) Liability
AZD	08/2014	$	2,952	EUR	2,170	$ 20	$ 0
BOA	07/2014	BRL	450	$	204	1	0
	07/2014	$	200	BRL	450	3	0
	08/2014	EUR	241,625	$	328,776	0	(2,144)
	05/2015	CAD	21,211		19,324	0	(404)
BPS	07/2014	BRL	1,820		818	0	(6)
	07/2014	$	818	BRL	1,820	6	(1)
	08/2014	EUR	2,524	$	3,422	0	(35)
	08/2014	$	811	BRL	1,820	5	0
	07/2015	BRL	314	$	130	1	0
BRC	07/2014	JPY	134,700		1,321	0	(9)
	08/2014	EUR	585		794	0	(7)
	09/2014	GBP	11,060		18,564	0	(353)
CBK	08/2014	BRL	16,210		7,302	34	0
	08/2014	EUR	9,156		12,485	1	(56)
DUB	08/2014	$	1,355	BRL	3,007	0	(7)
	07/2015	BRL	3,279	$	1,355	6	0
FBF	09/2014	GBP	1,446		2,427	0	(46)
GLM	08/2014	EUR	2,641		3,575	0	(42)
	08/2014	$	5,946	BRL	13,202	0	(26)
	08/2014		3,464	MXN	45,624	40	0
	09/2014		12,806		167,085	5	(4)
	07/2015	BRL	14,407	$	5,946	20	0
HUS	07/2014	TRY	2,113		997	3	0
JPM	07/2014	BRL	12,310		5,589	18	0
	07/2014	JPY	2,432,729		23,885	0	(128)
	07/2014	$	5,499	BRL	12,310	72	0

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Liability
	07/2014	$	25,280	JPY	2,567,429	$ 63	$ 0
	08/2014	BRL	12,310	$	5,449	0	(70)
	08/2014	JPY	2,567,429		25,286	0	(64)
	04/2015	BRL	14,000		5,913	24	0
RBC	09/2014	CAD	1,781		1,638	0	(28)
UAG	07/2014	BRL	12,310		5,468	0	(103)
	07/2014	$	5,585	BRL	12,310	4	(17)
Total Forward Foreign Currency Contracts						**$ 326**	**$ (3,550)**

WRITTEN OPTIONS:

INTEREST RATE SWAPTIONS

Counterparty	Description	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount	Premiums (Received)	Market Value
MYC	Call - OTC 4-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	1.300%	07/28/2014	$ 35,800	$ (36)	$ (17)
	Put - OTC 4-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	1.600%	07/28/2014	35,800	(215)	(19)
							$ (251)	$ (36)

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Premiums (Received)	Market Value
BOA	Put - OTC USD versus JPY	JPY 80.000	02/18/2019	$ 15,100	$ (857)	$ (614)
Total Written Options					**$ (1,108)**	**$ (650)**

TRANSACTIONS IN WRITTEN CALL AND PUT OPTIONS FOR THE PERIOD ENDED JUNE 30, 2014:

	# of Contracts	Notional Amount in $	Notional Amount in EUR	Premiums
Balance at Beginning of Period	1,940	$ 346,800	EUR 294,800	$ (1,880)
Sales	1,816	165,500	0	(2,040)
Closing Buys	0	(3,800)	0	5
Expirations	(3,756)	(372,400)	(147,400)	2,530
Exercised	0	(49,400)	(147,400)	277
Balance at End of Period	0	$ 86,700	EUR 0	$ (1,108)

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE, SOVEREIGN AND U.S. TREASURY OBLIGATION ISSUES - SELL PROTECTION (1)

Counterparty	Reference Entity	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2014 (2)	Notional Amount (3)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Liability
BOA	Berkshire Hathaway Finance Corp.	1.000%	03/20/2016	0.143%	$ 1,100	$ (14)	$ 31	$ 17	$ 0
	Brazil Government International Bond	1.000%	09/20/2015	0.355%	800	(4)	11	7	0
	China Government International Bond	1.000%	06/20/2019	0.724%	2,800	21	17	38	0
	General Electric Capital Corp.	1.000%	09/20/2015	0.204%	700	7	0	7	0
	MetLife, Inc.	1.000%	06/20/2017	0.284%	1,000	22	0	22	0
	Mexico Government International Bond	1.000%	09/20/2015	0.147%	800	7	2	9	0
	Mexico Government International Bond	1.000%	12/20/2018	0.545%	1,000	(1)	21	20	0
	Russia Government International Bond	1.000%	03/20/2019	1.662%	3,600	(250)	145	0	(105)
	Standard Chartered Bank	1.000%	03/20/2019	0.749%	EUR 1,000	(12)	28	16	0
BPS	Berkshire Hathaway Finance Corp.	1.000%	06/20/2016	0.157%	$ 5,700	94	3	97	0
	U.S. Treasury Notes	0.250%	09/20/2016	0.088%	EUR 6,500	(124)	157	33	0
BRC	Bank of America Corp.	1.000%	03/20/2019	0.621%	$ 1,300	15	8	23	0
	Berkshire Hathaway Finance Corp.	1.000%	03/20/2019	0.383%	3,700	59	47	106	0
	Berkshire Hathaway Finance Corp.	1.000%	12/20/2023	0.836%	1,000	(29)	43	14	0
	Brazil Government International Bond	1.000%	09/20/2015	0.355%	5,100	(39)	82	43	0
	China Government International Bond	1.000%	09/20/2015	0.152%	2,400	30	(4)	26	0
	China Government International Bond	1.000%	09/20/2016	0.258%	1,300	18	4	22	0
	General Electric Capital Corp.	1.000%	12/20/2014	0.156%	13,900	81	(20)	61	0
	General Electric Capital Corp.	1.000%	09/20/2015	0.204%	10,000	112	(11)	101	0
	General Motors Co.	5.000%	09/20/2016	0.669%	3,000	302	(8)	294	0
	Indonesia Government International Bond	1.000%	06/20/2019	1.511%	800	(19)	0	0	(19)

 See Accompanying Notes

Counterparty	Reference Entity	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2014 [(2)]	Notional Amount [(3)]	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
	Italy Government International Bond	1.000%	06/20/2019	0.919%	$ 11,000	$ (197)	$ 243	$ 46	$ 0
	MetLife, Inc.	1.000%	06/20/2016	0.186%	7,700	131	(4)	127	0
	MetLife, Inc.	1.000%	03/20/2019	0.499%	2,700	20	43	63	0
	Mexico Government International Bond	1.000%	09/20/2015	0.147%	5,500	(36)	96	60	0
	Mexico Government International Bond	1.000%	03/20/2018	0.421%	4,300	(7)	100	93	0
CBK	Brazil Government International Bond	1.000%	09/20/2015	0.355%	1,600	(19)	33	14	0
	Brazil Government International Bond	1.000%	06/20/2016	0.577%	27,000	(52)	286	234	0
	China Government International Bond	1.000%	03/20/2019	0.676%	1,900	10	19	29	0
	HSBC Bank PLC	1.000%	03/20/2019	0.783%	EUR 3,600	(36)	87	51	0
	Indonesia Government International Bond	1.000%	06/20/2019	1.511%	$ 300	(7)	0	0	(7)
	Italy Government International Bond	1.000%	06/20/2017	0.669%	2,700	16	11	27	0
	Italy Government International Bond	1.000%	06/20/2019	0.919%	700	(13)	15	2	0
	MetLife, Inc.	1.000%	12/20/2014	0.075%	8,200	(217)	255	38	0
	Mexico Government International Bond	1.000%	09/20/2016	0.230%	1,000	5	12	17	0
	Mexico Government International Bond	1.000%	12/20/2018	0.545%	1,700	(2)	36	34	0
DUB	Berkshire Hathaway Finance Corp.	1.000%	06/20/2016	0.157%	1,100	20	(1)	19	0
	Berkshire Hathaway Finance Corp.	1.000%	06/20/2017	0.226%	7,300	172	(2)	170	0
	Berkshire Hathaway Finance Corp.	1.000%	03/20/2019	0.383%	1,700	36	13	49	0
	China Government International Bond	1.000%	12/20/2018	0.623%	1,400	18	6	24	0
	China Government International Bond	1.000%	03/20/2019	0.676%	4,100	2	60	62	0
	China Government International Bond	1.000%	06/20/2019	0.724%	2,500	19	15	34	0
	Export-Import Bank of China	1.000%	12/20/2016	0.639%	2,300	(186)	207	21	0
	Export-Import Bank of Korea	1.000%	12/20/2016	0.230%	1,000	(64)	83	19	0
	General Electric Capital Corp.	1.000%	09/20/2015	0.204%	3,500	37	(2)	35	0
	General Electric Capital Corp.	1.000%	03/20/2016	0.233%	100	(6)	8	2	0
	General Electric Capital Corp.	1.000%	06/20/2016	0.241%	1,600	24	1	25	0
	General Electric Capital Corp.	1.000%	06/20/2017	0.288%	7,100	138	14	152	0
	General Electric Capital Corp.	1.000%	03/20/2019	0.418%	3,500	55	40	95	0
	HSBC Bank PLC	1.000%	12/20/2018	0.441%	EUR 3,400	38	79	117	0
	Indonesia Government International Bond	1.000%	06/20/2019	1.511%	$ 1,500	(34)	(2)	0	(36)
	Italy Government International Bond	1.000%	03/20/2019	0.887%	10,200	(167)	222	55	0
	Italy Government International Bond	1.000%	06/20/2019	0.919%	3,900	(72)	88	16	0
	JPMorgan Chase & Co.	1.000%	09/20/2015	0.221%	10,000	110	(11)	99	0
	MetLife, Inc.	1.000%	06/20/2017	0.284%	3,800	85	(3)	82	0
	MetLife, Inc.	1.000%	03/20/2019	0.499%	1,700	29	11	40	0
	Mexico Government International Bond	1.000%	03/20/2016	0.200%	3,200	(18)	64	46	0
	Mexico Government International Bond	1.000%	06/20/2016	0.217%	7,900	19	106	125	0
	Mexico Government International Bond	1.000%	09/20/2016	0.230%	700	3	9	12	0
	Prudential Financial, Inc.	1.000%	03/20/2019	0.506%	3,500	66	15	81	0
	Prudential Financial, Inc.	1.000%	06/20/2019	0.536%	16,000	326	37	363	0
FBF	General Electric Capital Corp.	1.000%	06/20/2016	0.241%	7,200	103	7	110	0
	MetLife, Inc.	1.000%	12/20/2014	0.075%	1,300	(20)	26	6	0
	MetLife, Inc.	1.000%	06/20/2016	0.186%	1,900	33	(2)	31	0
GST	Italy Government International Bond	1.000%	06/20/2017	0.669%	400	2	2	4	0
	MetLife, Inc.	1.000%	06/20/2016	0.186%	3,800	65	(3)	62	0
	Mexico Government International Bond	1.000%	09/20/2016	0.230%	1,900	9	24	33	0
HUS	Brazil Government International Bond	1.000%	09/20/2015	0.355%	1,000	(10)	18	8	0
	Brazil Government International Bond	1.000%	03/20/2016	0.524%	1,200	(6)	16	10	0
	Italy Government International Bond	1.000%	03/20/2019	0.887%	10,200	(171)	227	56	0
	Mexico Government International Bond	1.000%	09/20/2015	0.147%	1,700	13	5	18	0
	Mexico Government International Bond	1.000%	09/20/2016	0.230%	700	4	9	13	0
JPM	Brazil Government International Bond	1.000%	09/20/2015	0.355%	400	(4)	7	3	0
	China Government International Bond	1.000%	12/20/2018	0.623%	5,800	57	40	97	0
	China Government International Bond	1.000%	06/20/2019	0.724%	4,100	21	34	55	0
	General Electric Capital Corp.	1.000%	06/20/2015	0.186%	9,900	82	0	82	0
	HSBC Bank PLC	1.000%	12/20/2018	0.441%	EUR 2,000	28	41	69	0
	Indonesia Government International Bond	1.000%	06/20/2019	1.511%	$ 600	(14)	0	0	(14)
	MetLife, Inc.	1.000%	06/20/2017	0.284%	2,400	52	0	52	0
	Mexico Government International Bond	1.000%	09/20/2016	0.230%	800	4	10	14	0
	PSEG Power LLC	1.000%	12/20/2018	0.813%	1,700	11	4	15	0
MYC	Barclays Bank PLC	1.000%	06/20/2015	0.224%	EUR 10,500	116	(2)	114	0
	Brazil Government International Bond	1.000%	09/20/2015	0.355%	$ 400	(2)	6	4	0
	General Electric Capital Corp.	1.000%	06/20/2016	0.241%	200	(1)	4	3	0
	Italy Government International Bond	1.000%	03/20/2019	0.887%	5,200	(86)	114	28	0
	Italy Government International Bond	1.000%	09/20/2019	0.948%	7,900	34	(11)	23	0
	Mexico Government International Bond	1.000%	12/20/2018	0.545%	1,500	(3)	33	30	0
	Standard Chartered Bank	1.000%	03/20/2019	0.749%	EUR 1,100	(13)	31	18	0
UAG	Brazil Government International Bond	1.000%	09/20/2015	0.355%	$ 500	(5)	9	4	0
						$ 821	$ 3,494	$ 4,496	$ (181)

CREDIT DEFAULT SWAPS ON CREDIT INDICES - SELL PROTECTION [(1)]

Counterparty	Index/Tranches	Fixed Deal Receive Rate	Maturity Date	Notional Amount [(3)]	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value [(4)] Asset	Liability
BOA	CDX.HY-21 3-Year Index	5.000%	12/20/2016	$ 6,732	$ 547	$ (4)	$ 543	$ 0
BRC	CDX.EM-12 5-Year Index	5.000%	12/20/2014	1,900	190	(174)	16	0
	CDX.EM-13 5-Year Index	5.000%	06/20/2015	8,900	1,032	(833)	199	0
FBF	CMBX.NA.AAA.1 Index	0.100%	10/12/2052	9,206	(46)	13	0	(33)
GST	CDX.EM-13 5-Year Index	5.000%	06/20/2015	400	50	(41)	9	0
	CDX.IG-9 10-Year Index 30-100%	0.548%	12/20/2017	193	0	3	3	0
HUS	CDX.EM-13 5-Year Index	5.000%	06/20/2015	6,100	678	(542)	136	0
JPM	CDX.EM-13 5-Year Index	5.000%	06/20/2015	500	57	(45)	12	0
	CDX.IG-9 10-Year Index 30-100%	0.553%	12/20/2017	386	0	6	6	0
MYC	CDX.EM-13 5-Year Index	5.000%	06/20/2015	8,300	966	(781)	185	0
UAG	CDX.EM-12 5-Year Index	5.000%	12/20/2014	1,000	99	(91)	8	0
					$ 3,573	$ (2,489)	$ 1,117	$ (33)

(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 indices' 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

Counterparty	Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Liability
BOA	Pay	1-Year BRL-CDI	11.320%	01/04/2016	BRL 23,400	$ 21	$ 88	$ 109	$ 0
	Pay	1-Year BRL-CDI	10.630%	01/02/2017	3,000	0	(12)	0	(12)
BPS	Pay	1-Year BRL-CDI	11.320%	01/04/2016	20,100	(16)	110	94	0
	Pay	1-Year BRL-CDI	9.120%	01/02/2017	9,100	23	(205)	0	(182)
BRC	Pay	28-Day MXN-TIIE	4.120%	10/26/2015	MXN 220,000	(2)	142	140	0
	Pay	28-Day MXN-TIIE	5.000%	09/13/2017	2,500	(1)	6	5	0
	Pay	28-Day MXN-TIIE	5.500%	09/13/2017	54,000	(16)	175	159	0
	Pay	28-Day MXN-TIIE	5.250%	06/11/2018	3,200	(2)	9	7	0
	Pay	28-Day MXN-TIIE	5.500%	06/11/2018	2,500	(1)	8	7	0
DUB	Pay	1-Year BRL-CDI	10.630%	01/02/2017	BRL 1,000	0	(4)	0	(4)
GLM	Pay	1-Year BRL-CDI	11.320%	01/04/2016	21,200	(18)	117	99	0
	Pay	1-Year BRL-CDI	10.630%	01/02/2017	1,100	1	(5)	0	(4)
	Pay	28-Day MXN-TIIE	5.250%	06/11/2018	MXN 5,700	(3)	15	12	0
	Pay	28-Day MXN-TIIE	5.500%	06/11/2018	7,900	(2)	24	22	0
HUS	Pay	28-Day MXN-TIIE	5.000%	09/13/2017	7,500	(5)	18	13	0
	Pay	28-Day MXN-TIIE	5.500%	09/13/2017	80,300	(7)	243	236	0
	Pay	28-Day MXN-TIIE	5.500%	06/11/2018	2,700	0	8	8	0
JPM	Pay	1-Year BRL-CDI	11.320%	01/04/2016	BRL 23,400	21	88	109	0
	Pay	28-Day MXN-TIIE	5.250%	06/11/2018	MXN 2,500	(1)	6	5	0
	Pay	28-Day MXN-TIIE	5.500%	06/11/2018	1,300	0	4	4	0
MYC	Pay	1-Year BRL-CDI	10.630%	01/02/2017	BRL 100	0	(1)	0	(1)
	Pay	28-Day MXN-TIIE	4.120%	10/26/2015	MXN 220,000	0	141	141	0
	Pay	28-Day MXN-TIIE	5.500%	09/13/2017	30,000	2	86	88	0
	Pay	28-Day MXN-TIIE	5.250%	06/11/2018	3,900	(2)	10	8	0
	Pay	28-Day MXN-TIIE	5.500%	06/11/2018	7,100	(2)	22	20	0
UAG	Pay	1-Year BRL-CDI	8.900%	01/02/2017	BRL 3,800	2	(85)	0	(83)
						$ (8)	$ 1,008	$ 1,286	$ (286)
Total Swap Agreements						**$ 4,386**	**$ 2,013**	**$ 6,899**	**$ (500)**

FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER SUMMARY

The following is a summary by counterparty of the market value of OTC financial derivative instruments and collateral (received)/pledged as of June 30, 2014:

(i) Securities with an aggregate market value of $1,413 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of June 30, 2014.

	Financial Derivative Assets				Financial Derivative Liabilities						
Counterparty	Forward Foreign Currency Contracts	Purchased Options	Swap Agreements	Total Over the Counter	Forward Foreign Currency Contracts	Written Options	Swap Agreements	Total Over the Counter	Net Market Value of OTC Derivatives	Collateral (Received)/ Pledged	Net Exposure [5]
AZD	$ 20	$0	$ 0	$ 20	$ 0	$ 0	$ 0	$ 0	$ 19	$ 0	$ 20
BOA	4	0	788	792	(2,548)	(614)	(117)	(3,279)	(2,489)	1,413	(1,074)
BPS	12	0	224	236	(42)	0	(182)	(224)	13	0	12
BRC	0	0	1,613	1,613	(369)	0	(19)	(388)	1,222	(1,350)	(125)
CBK	35	0	446	481	(56)	0	(7)	(63)	421	(635)	(217)
DUB	6	0	1,742	1,748	(7)	0	(40)	(47)	1,702	(2,000)	(299)
FBF	0	0	147	147	(46)	0	(33)	(79)	69	0	68
GLM	65	0	133	198	(72)	0	(4)	(76)	121	(280)	(159)
GST	0	0	111	111	0	0	0	0	112	(180)	(69)
HUS	3	0	498	501	0	0	0	0	501	(480)	21
JPM	177	0	522	699	(262)	0	(14)	(276)	422	(530)	(107)
MYC	0	0	663	663	0	(36)	0	(37)	626	(960)	(334)
RBC	0	0	0	0	(28)	0	0	(28)	(28)	0	(28)
UAG	4	0	12	16	(120)	0	(83)	(203)	(187)	0	(187)
Total Over the Counter	**$326**	**$0**	**$6,899**	**$7,225**	**$(3,550)**	**$(650)**	**$(500)**	**$(4,700)**			

[5] Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from OTC financial derivative instruments 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.

FAIR VALUE OF FINANCIAL DERIVATIVE INSTRUMENTS

The following is a summary of the fair valuation of the Portfolio's derivative instruments categorized by risk exposure. See Note 7, Principal Risks, in the Notes to Financial Statements on risks of the Portfolio.

Fair Values of Financial Derivative Instruments on the Statement of Assets and Liabilities as of June 30, 2014:

	Derivatives not accounted for as hedging instruments					
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
Financial Derivative Instruments - Assets						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 774	$ 774
Swap Agreements	0	0	0	0	159	159
	$ 0	$ 0	$ 0	$ 0	$ 933	$ 933
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 326	$ 0	$ 326
Swap Agreements	0	5,613	0	0	1,286	6,899
	$ 0	$ 5,613	$ 0	$ 326	$ 1,286	$ 7,225
	$ 0	$ 5,613	$ 0	$ 326	$ 2,219	$ 8,158
Financial Derivative Instruments - Liabilities						
Exchange-traded or centrally cleared						
Swap Agreements	$ 0	$ 149	$ 0	$ 0	$ 477	$ 626
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 3,550	$ 0	$ 3,550
Written Options	0	0	0	614	36	650
Swap Agreements	0	214	0	0	286	500
	$ 0	$ 214	$ 0	$ 4,164	$ 322	$ 4,700
	$ 0	$ 363	$ 0	$ 4,164	$ 799	$ 5,326

The Effect of Financial Derivative Instruments on the Statement of Operations for the Period Ended June 30, 2014:

	Derivatives not accounted for as hedging instruments					
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
Net Realized Gain (Loss) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Written Options	$ 0	$ 0	$ 0	$ 0	$ 1,408	$ 1,408
Futures	0	0	0	0	1,980	1,980
Swap Agreements	0	1,371	0	0	(4,724)	(3,353)
	$ 0	$ 1,371	$ 0	$ 0	$ (1,336)	$ 35
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ (1,207)	$ 0	$ (1,207)
Written Options	0	102	0	0	1,024	1,126
Swap Agreements	0	2,006	0	0	471	2,477
	$ 0	$ 2,108	$ 0	$ (1,207)	$ 1,495	$ 2,396
	$ 0	$ 3,479	$ 0	$ (1,207)	$ 159	$ 2,431
Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Written Options	$ 0	$ 0	$ 0	$ 0	$ 244	$ 244
Futures	0	0	0	0	5,065	5,065
Swap Agreements	0	1,656	0	0	(9,610)	(7,954)
	$ 0	$ 1,656	$ 0	$ 0	$ (4,301)	$ (2,645)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 229	$ 0	$ 229
Written Options	0	(64)	0	243	(450)	(271)
Swap Agreements	0	1,763	0	0	1,157	2,920
	$ 0	$ 1,699	$ 0	$ 472	$ 707	$ 2,878
	$ 0	$ 3,355	$ 0	$ 472	$ (3,594)	$ 233

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of June 30, 2014 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2014
Investments in Securities, at Value				
Bank Loan Obligations	$ 0	$ 17,873	$ 0	$ 17,873
Corporate Bonds & Notes				
Banking & Finance	0	396,756	11,294	408,050
Industrials	0	119,403	0	119,403
Utilities	0	71,835	0	71,835
Municipal Bonds & Notes				
New Jersey	0	9,527	0	9,527
Texas	0	419	0	419
U.S. Government Agencies	0	52,367	2	52,369
U.S. Treasury Obligations	0	152,528	0	152,528
Mortgage-Backed Securities	0	160,811	1,763	162,574
Asset-Backed Securities	0	144,863	2,679	147,542
Sovereign Issues	0	432,554	0	432,554
Short-Term Instruments				
Certificates of Deposit	0	58,409	0	58,409
Commercial Paper	0	80,676	0	80,676
Repurchase Agreements	0	89,579	0	89,579
Short-Term Notes	0	4,300	0	4,300
U.S. Treasury Bills	0	3,008	0	3,008
	$ 0	$ 1,794,908	$ 15,738	$ 1,810,646

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2014
Investments in Affiliates, at Value				
Short-Term Instruments				
Central Funds Used for Cash Management Purposes	$ 591,462	$ 0	$ 0	$ 591,462
Total Investments	$ 591,462	$ 1,794,908	$ 15,738	$ 2,402,108
Short Sales, at Value - Liabilities				
U.S. Government Agencies	$ 0	$ (5,161)	$ 0	$ (5,161)
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	774	159	0	933
Over the counter	0	7,225	0	7,225
	$ 774	$ 7,384	$ 0	$ 8,158
Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	0	(626)	0	(626)
Over the counter	0	(4,700)	0	(4,700)
	$ 0	$ (5,326)	$ 0	$ (5,326)
Totals	$ 592,236	$ 1,791,805	$ 15,738	$ 2,399,779

There were no significant transfers between Level 1, 2, and 3 during the period ended June 30, 2014.

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. Pacific Investment Management Company LLC ("PIMCO" or "Manager") serves as the investment adviser for the Portfolio.

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 probable.

(b) Cash and Foreign Currency The functional and reporting currency for the Portfolio is the U.S. dollar. The market values of foreign securities, currency holdings and other assets and liabilities are translated into U.S. dollars based on the current exchange rates each business day. Purchases and sales of securities and 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 Statement of Operations. The Portfolio may invest in foreign currency-denominated securities and may engage in foreign currency transactions either on a spot (cash) basis at the rate prevailing in the currency exchange market at the time or through a forward foreign currency contract (see financial derivative instruments). Realized foreign exchange gains or losses arising from sales of spot 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 Statement of Operations. Net unrealized foreign exchange gains and losses arising 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 foreign currency assets and liabilities on the Statement 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 paydowns on mortgage-backed securities, 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 June 2013, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") providing updated guidance for assessing whether an entity is an investment company and for the measurement of noncontrolling ownership interests in other investment companies. This update is effective prospectively during interim or annual periods beginning on or after December 15, 2013. The Portfolio has adopted the ASU for the fiscal year ended December 31, 2013 as it follows the investment company reporting requirements under U.S. GAAP and did not have an impact on the Portfolio's financial statements.

In June 2014, the FASB issued an ASU that expands secured borrowing accounting for certain repurchase agreements. The ASU also sets forth additional disclosure requirements for certain transactions accounted for as sales, in order to provide financial statement users with information to compare to similar transactions accounted for as secured borrowings. The ASU is effective prospectively during interim or annual periods beginning after December 15, 2014. At this time, management is evaluating the implications of these changes on the financial statements.

3. INVESTMENT VALUATION AND FAIR VALUE MEASUREMENTS

(a) Investment Valuation Policies The Net Asset Value ("NAV") of the Portfolio's shares is valued as of the close of regular trading (normally 4:00 p.m., Eastern time) (the "NYSE Close") on each day that the New York Stock Exchange ("NYSE") is open (each a "Business Day"). Information that becomes known to the Portfolio or its agents after the NAV has been calculated on a particular day will not generally be used to retroactively adjust the price of a security or the NAV determined earlier that day.

For purposes of calculating the NAV, portfolio securities and other financial derivative instruments are valued on each Business Day using valuation methods as adopted by the Board of Trustees (the "Board") of the Trust. The Board has formed a Valuation Committee whose function is to monitor the valuation of portfolio securities and other financial derivative instruments and, as required by the Trust's valuation policies, determine in good faith the fair value of portfolio holdings after consideration of all relevant factors, including recommendations provided by the Adviser. The Board has delegated responsibility for applying the valuation methods to the investment adviser (the "Adviser"). The Adviser monitors the continual appropriateness of methods applied and determines if adjustments should be made in light of market factor changes and events affecting issuers.

Where market quotes are readily available, fair market value is generally determined on the basis of official closing prices or the 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 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, 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 that may require fair valuation under particular circumstances. The Adviser monitors the continual appropriateness of fair valuation 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 fair 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 reviews 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.

In circumstances in which daily market quotes are not readily available, investments may be valued pursuant to guidelines established by the Board. In the event that the security or asset cannot be valued pursuant to the established guidelines, the value of the security or other financial derivative instrument 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 describes 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.

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 on futures 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 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 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 redemption where the inputs to the 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 price 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 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. These securities are categorized as Level 3 of the fair value hierarchy. 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 not available or not deemed to be indicative of fair value, the investment advisor 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 fair value is based upon 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 investment advisor 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) Investments in Securities

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.

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 committed amount 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 loan. In certain circumstances, the Portfolio may receive a penalty fee upon the prepayment of a 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, 2014, the Portfolio had no unfunded loan commitments.

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. Interest 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 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.

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"); and 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.

(b) Investments in Affiliates

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, 2014 (amounts in thousands):

Investments in PIMCO Short-Term Floating NAV Portfolio

Market Value 12/31/2013	Purchases at Cost	Proceeds from Sales	Net Realized Gain/(Loss)	Change in Unrealized Appreciation/ (Depreciation)	Market Value 06/30/2014	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 12/31/2013	Purchases at Cost	Proceeds from Sales	Net Realized Gain/(Loss)	Change in Unrealized Appreciation/ (Depreciation)	Market Value 06/30/2014	Dividend Income	Net Capital Gain Distributions
$ 328,934	$ 754,379	$ (492,000)	$ (92)	$ 240	$ 591,461	$ 678	$ 0

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. Repurchase agreements, including accrued interest, are included on the Statement of Assets and Liabilities. Interest earned is recorded as a component of interest income on the Statement of Operations. In periods of increased demand for collateral, the Portfolio may pay a fee for receipt of collateral, which may result in interest expense to the Portfolio.

(b) Reverse Repurchase Agreements The Portfolio may enter into reverse repurchase agreements. In a reverse repurchase agreement, the Portfolio delivers a security in exchange for cash to a financial institution, the counterparty, with a simultaneous agreement to repurchase the same or substantially the same security at an agreed upon price and date. The Portfolio is entitled to receive principal and interest payments, if any, made on the security delivered to the counterparty during the term of the agreement. Cash received in exchange for securities delivered plus accrued interest payments to be made by the Portfolio to counterparties are reflected as a liability on the Statement of Assets and Liabilities. Interest payments made by the Portfolio to counterparties are recorded as a component of interest expense on the Statement of Operations. In periods of increased demand for the security, the Portfolio may receive a fee for use of the security by the counterparty, which may result in interest income to the Portfolio. The Portfolio will segregate assets determined to be liquid by PIMCO or will otherwise cover its obligations under reverse repurchase agreements.

(c) Sale-Buybacks The Portfolio may enter into financing transactions referred to as 'sale-buybacks'. A sale-buyback transaction consists of a sale of a security by the Portfolio to a financial institution, the counterparty, with a simultaneous agreement to repurchase the same or substantially the same security at an agreed-upon price and date. The Portfolio is not entitled to receive principal and interest payments, if any, made on the security sold to the counterparty during the term of the agreement. The agreed-upon proceeds for securities to be repurchased by the Portfolio are reflected as a liability on the Statement of Assets and Liabilities. The Portfolio will recognize net income represented by the price differential between the price received for the transferred security and the agreed-upon repurchase price. This is commonly referred to as the 'price drop'. A price drop consists of (i) the foregone interest and inflationary income adjustments, if any, the Portfolio would have otherwise received had the security not been sold and (ii) the negotiated financing terms between the Portfolio and counterparty. Foregone interest and inflationary income adjustments, if any, are recorded as components of interest income on the Statement of Operations. Interest payments based upon negotiated financing terms made by the Portfolio to counterparties are recorded as a component of interest expense on the Statement of Operations. In periods of increased demand for the security, the Portfolio may receive a fee for use of the security by the counterparty, which may result in interest income to the Portfolio. The Portfolio will segregate assets determined to be liquid by PIMCO or will otherwise cover its obligations under sale-buyback transactions.

(d) Short Sales The Portfolio may enter into short sales transactions. A short sale is a transaction in which the Portfolio sells securities it may not own in anticipation of a decline in the fair market value of the securities. Securities sold in short sale transactions and the interest payable on such securities, if any, are reflected as a liability on the Statement of Assets and Liabilities. The Portfolio is obligated to deliver securities at the trade price at the time the short position is covered. Possible losses from short sales may be unlimited, whereas losses from purchases cannot exceed the total amount invested.

6. FINANCIAL DERIVATIVE INSTRUMENTS

The following disclosures contain information on how and why the Portfolio uses financial derivative instruments, the credit-risk-related contingent features in certain financial derivative instruments, and how financial derivative instruments affect the Portfolio's financial position, results of operations and cash flows. The location and fair value amounts of these instruments on the Statement of Assets and Liabilities and the realized and changes in unrealized gains and losses on the Statement of Operations, each categorized by type of financial derivative contract and related risk exposure, are included in a table in the Notes to Schedule of Investments. The financial derivative instruments outstanding as of period end and the amounts of realized and changes in unrealized gains and losses on financial derivative instruments during the period, as disclosed in the Notes to Schedule of Investments, serve as indicators of the volume of financial derivative activity for the Portfolio.

(a) Forward Foreign Currency Contracts The Portfolio may enter into forward 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 forward 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 forward foreign currency contract fluctuates with changes in foreign currency exchange rates. Forward 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, cash or 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, 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 included 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 as an asset on the Statement of Assets and Liabilities 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 change 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 paid at the beginning of the measurement period are included 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). Upfront premiums received (paid) are initially recorded as liabilities (assets) and subsequently marked to market to reflect the current value of the swap. 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. obligations 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. obligations 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. obligations as of period end are disclosed in the Notes to Schedule of Investments. They serve as an indicator of the current status of payment/performance risk and represent the likelihood or risk of default for the reference entity. 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 equals the notional amount of the agreement. Notional amounts of each individual credit default swap agreement outstanding as of period end 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 buyer pays an upfront fee in consideration for the right to early terminate the swap transaction in whole, at zero costs and 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 segments of 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 such things as 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 more comprehensive 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 an increase 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. Interest rate changes can be sudden and unpredictable, and the Portfolio may lose money if these changes are not anticipated by Portfolio management. The Portfolio may not be able to hedge against changes in interest rates or may choose not to do so for cost or other reasons. In addition, any hedges may not work as intended. 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 security's market price to interest rate (i.e. yield) movements. A wide variety of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions, etc.). At present, the U.S. is experiencing historically low interest rates. This, combined with recent economic recovery and the Federal Reserve Board's tapering of its quantitative easing program, could potentially increase the probability of an upward interest rate environment in the near future. Further, while U.S. bond markets have steadily grown over the past three decades, dealer "market making" ability has remained relatively stagnant. Given the importance of intermediary "market making" in creating a robust and active market, fixed income securities are currently facing increased volatility and liquidity risks. All of these factors, collectively and/or individually, could cause a Portfolio to lose value. If the Portfolio lost enough value, the Portfolio could face increased redemptions by shareholders, which could further impair its performance.

The Portfolio may invest in securities and instruments that are economically tied to Russia. Investments in Russia are subject to political, economic, legal, market and currency risks. The risks include uncertain political and economic policies, short-term market volatility, poor accounting standards, corruption and crime, an inadequate regulatory system, and unpredictable taxation. Investments in Russia are particularly subject to the risk that economic sanctions may be imposed by the United States and/or other countries. Such sanctions—which may impact companies in many sectors, including energy, financial services and defense, among others—may negatively impact the Portfolio's (or Acquired Fund's) performance and/or ability to achieve its investment objective.

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 Portfolio's returns.

The market values of equities, such as common stocks and preferred securities or equity related investments such as futures and options, have historically risen and fallen periodic cycles and 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. Different types of equity securities may react differently to these developments. 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 netting arrangements with select counterparties ("Master Agreements"). 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 the Statement of Assets and Liabilities as Deposits due to Counterparties. The market value of any securities received as collateral is 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 which is segregated at a broker account registered with the Commodity 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 Portfolio. Variation margin, or 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 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 are disclosed in the Notes to Schedule of Investments.

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 Multi-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, which 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, 2014, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 of the Act (amounts in thousands):

Purchases	Sales
$ 44,261	$ 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 a Portfolio has held a particular security is not generally a consideration in investment decisions. A change in the securities held by a 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 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 a 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, 2014, were as follows (amounts in thousands):

U.S. Government/Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 1,770,271	$ 2,527,324	$ 569,720	$ 209,849

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 06/30/2014		Year Ended 12/31/2013	
	Shares	Amount	Shares	Amount
Receipts for shares sold				
Institutional Class	72	$ 769	861	$ 9,229
Administrative Class	23,029	245,437	31,755	338,673
Advisor Class	5,757	61,310	19,839	211,059
Issued as reinvestment of distributions				
Institutional Class	31	333	87	930
Administrative Class	712	7,592	2,052	21,881
Advisor Class	263	2,806	730	7,780
Cost of shares redeemed				
Institutional Class	(63)	(667)	(452)	(4,849)
Administrative Class	(15,558)	(165,822)	(33,165)	(353,085)
Advisor Class	(4,025)	(42,891)	(11,826)	(125,522)
Net increase (decrease) resulting from Portfolio share transactions	10,218	$ 108,867	9,881	$ 106,096

As of June 30, 2014, two shareholders each owned 10% or more of the total Portfolio's outstanding shares comprising 40% 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 Adviser has reviewed the Portfolio's tax positions for all open tax years. As of June 30, 2014, 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 2010-2012, 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, 2014, 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 Appreciation [1]
$ 2,391,718	$ 20,591	$ (10,201)	$ 10,390

[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:

AZD	Australia and New Zealand Banking Group	**DUB**	Deutsche Bank AG	**JPS**	JPMorgan Securities, Inc.
BCY	Barclays Capital, Inc.	**FBF**	Credit Suisse International	**MYC**	Morgan Stanley Capital Services, Inc.
BOA	Bank of America N.A.	**FOB**	Credit Suisse Securities (USA) LLC	**NMO**	National Bank of Canada
BOS	Banc of America Securities LLC	**GLM**	Goldman Sachs Bank USA	**RBC**	Royal Bank of Canada
BPG	BNP Paribas Securities Corp.	**GSC**	Goldman Sachs & Co.	**SSB**	State Street Bank and Trust Co.
BPS	BNP Paribas S.A.	**GST**	Goldman Sachs International	**UAG**	UBS AG Stamford
BRC	Barclays Bank PLC	**HUS**	HSBC Bank USA N.A.		
CBK	Citibank N.A.	**JPM**	JPMorgan Chase Bank N.A.		

Currency Abbreviations:

BRL	Brazilian Real	**GBP**	British Pound	**TRY**	Turkish New Lira
CAD	Canadian Dollar	**JPY**	Japanese Yen	**USD (or $)**	United States Dollar
EUR	Euro	**MXN**	Mexican Peso		

Exchange Abbreviations:

OTC	Over the Counter

Index Abbreviations:

CDX.EM	Credit Derivatives Index - Emerging Markets	**CDX.IG**	Credit Derivatives Index - Investment Grade	**CMBX**	Commercial Mortgage-Backed Index
CDX.HY	Credit Derivatives Index - High Yield				

Other Abbreviations:

ALT	Alternate Loan Trust	**FDIC**	Federal Deposit Insurance Corp.	**TIIE**	Tasa de Interés Interbancaria de Equilibrio
CDI	Brazil Interbank Deposit Rate	**LIBOR**	London Interbank Offered Rate		

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

General Information

Investment Adviser and Administrator

Pacific Investment Management Company LLC
650 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, Suite 1300
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_063014

FRANKLIN TEMPLETON
INVESTMENTS

Semiannual Report
June 30, 2014

Franklin Templeton
Variable Insurance Products Trust

Franklin Templeton Variable Insurance Products Trust Semiannual Report

Table of Contents

*Not part of the semiannual report. Retain for your records.

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.

Templeton Developing Markets VIP Fund

(Formerly, Templeton Developing Markets Securities Fund)

This semiannual report for Templeton Developing Markets VIP Fund covers the period ended June 30, 2014.

Class 2 Performance Summary as of June 30, 2014

Templeton Developing Markets VIP Fund – Class 2 delivered a +0.77% total return* for the six-month period ended June 30, 2014.

*The Fund has a fee waiver associated with its investments in a Franklin Templeton money fund, contractually guaranteed through at least its current fiscal year-end. Fund investment results reflect the fee waiver, to the extent applicable; without this reduction, the results would have been lower.

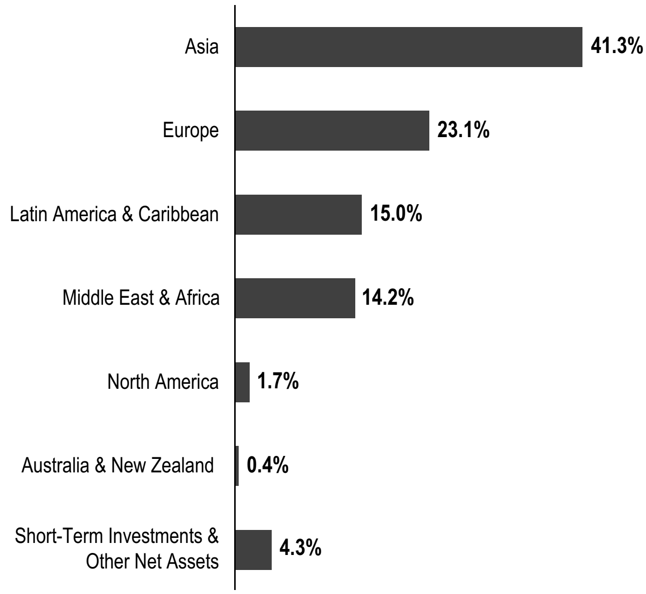
Performance reflects the Fund's Class 2 operating expenses, but does ***not*** *include any contract fees, expenses or sales charges. If they had been included, performance would be lower. These charges and deductions, particularly for variable life policies, can have a significant effect on contract values and insurance benefits. See the contract prospectus for a complete description of these expenses, including sales charges.*

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 Goal and Main Investments: Templeton Developing Markets VIP Fund seeks long-term capital appreciation. Under normal market conditions, the Fund invests at least 80% of its net assets in emerging market investments.

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, of which frontier markets are a subset, involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size, lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets. Because these frameworks are typically even less developed in frontier markets, as well as various factors including the increased potential for extreme price volatility, illiquidity, trade barriers and exchange controls, the risks associated with developing markets are magnified in frontier markets. 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.

Geographic Breakdown
Based on Total Net Assets as of 6/30/14



Performance Overview

You can find the Fund's six-month total return in the Performance Summary. In comparison, the MSCI Emerging Markets (EM) Index generated a +6.32% total return, and the Standard & Poor's®/International Finance Corporation Investable Composite Index produced a +6.82% total return for the same period.[1] Please note index performance numbers are for reference and we do not attempt to track an index but rather undertake investments on the basis of fundamental research.

Economic and Market Overview

The six months under review were characterized by growth in emerging markets and a continued recovery in developed markets. Although several emerging market countries faced headwinds such as soft domestic demand, weak exports and political crises, emerging market economies overall continued to grow faster than developed market economies. After moderating in the first quarter, China's economic growth stabilized in the second quarter as the government's stimulus measures gained traction. Retail sales continued to grow as household income increased. Domestic demand accounted for a greater portion of gross domestic product, indicating stable progress in policymakers' efforts to make China's economy more consumer driven. Other economies that showed signs of moderation included those of Russia, Brazil and Turkey, while several economies, including those of Qatar, Taiwan and Poland, showed signs of improvement.

After a weak start to the year, emerging market stocks advanced in the second half of the period, supported by better U.S. economic data, the European Central Bank's further monetary easing, an apparent cooling of tensions between Russia and Ukraine, and China's improving manufacturing sector. Certain emerging markets such as India and Indonesia were buoyed by investors' expectations for economic reforms after elections. Several emerging market central banks, including those of Brazil, India, South Africa and Russia, raised interest rates in response to rising inflation and weakening currencies, while several central banks, including those of Chile, Mexico, Romania and Thailand, lowered interest rates to promote economic growth. After raising interest rates early in the year to support the Turkish lira, Turkey's central bank began easing monetary policy toward period-end to boost economic growth. The

1. Source: © 2014 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.

People's Bank of China (PBOC) tightened liquidity by curbing lending by banks and non-bank institutions. However, near period-end the PBOC reduced the cash reserve requirement ratio for banks serving rural borrowers and smaller companies to stimulate lending in targeted sectors and support economic expansion.

Emerging market stocks rose during the six months under review, as many investors were encouraged by generally positive global economic data and seemed to focus on the relatively attractive valuations of many emerging market stocks. For the six months ended June 30, 2014, emerging market stocks, as measured by the MSCI EM Index, generated a +6.32% total return in U.S. dollar terms, aided by strength in several emerging market currencies.[1] Latin America outperformed as Colombia, Peru and Brazil generated strong returns. Asia performed well, with Indonesia, India, the Philippines and Thailand producing robust returns. European emerging markets underperformed their peers, as losses in Russia and Hungary partly offset gains in Turkey, the Czech Republic and Greece.

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 leading property developer and manager with operations throughout the Middle East, notably in Dubai, United Arab Emirates (UAE); Brilliance China Automotive Holdings, one of China's major automobile manufacturers; and Tata Consultancy Services, one of India's largest information technology (IT) consulting and services companies.

Emaar Properties' first-quarter 2014 earnings benefited from strong growth in the company's leasing and rental income. Rising tourism in Dubai boosted Emaar's hotel and retail operations, and, in our assessment, an ongoing property sector recovery could potentially support future earnings growth. Investor positioning prior to the UAE's inclusion in the MSCI EM Index in June led to strong buying of Emaar's shares, contributing to further price increases.

Top 10 Countries
6/30/14

	% of Total Net Assets
China	13.9%
Brazil	13.0%
Thailand	9.0%
South Africa	8.9%
Russia	8.1%
India	6.6%
U.K.	4.5%
Taiwan	3.6%
South Korea	3.5%
Switzerland	3.4%

Brilliance China Automotive has a joint venture with BMW for the production and sale of BMW 3-series and 5-series sedans and X1 compact sport utility vehicles in China. The company appears to us to be well positioned to fulfill China's expanding middle class's fast-growing demand for affordable luxury vehicles. The resilient sales growth of luxury cars in China contributed to Brilliance's strong first-quarter sales volume, with BMW cars taking an increasing market share. Continued positive car-sales data and news of an extension to 2028 of the joint venture agreement between Brilliance and BMW also boosted Brilliance's share price.

Tata Consultancy Services, in our view, is a well-managed and attractively valued service provider in the growing IT outsourcing industry. In addition to benefiting from the Indian equity market's strong performance, its shares were supported by the IT outsourcing industry's growth during the period. We believe that India has a major competitive advantage in providing outsourcing services because of the country's available technological expertise and relatively low labor costs. Tata Consultancy's shares made solid gains in June as the company reaffirmed its revenue and margin outlook and as earnings results from a U.S. peer suggested ongoing strength in key markets.

In contrast, key detractors from the Fund's absolute performance included SJM Holdings, MGM China Holdings and Luk Fook Holdings (International). We closed the Fund's positions in these companies as we sought to invest in companies we considered to be more attractively valued within our investment universe.

Many Hong Kong-listed, Macau-based casino and entertainment companies declined in value as uncertainty about the sustainability of their robust revenue growth rates led to lower revenue estimates. Furthermore, concerns about the long-term impact of rapidly increasing hotel and casino capacity on Macau's Cotai Strip led many investors to lock in some profits. The Fund's positions in SJM Holdings and MGM China Holdings were among those that lost ground after strong performances in the latter part of 2013.

Luk Fook Holdings is a Hong Kong-based jewelry retailer that we considered to be an attractive route to gain exposure to Chinese consumers' rising discretionary spending. Pressuring Luk Fook's share price were uncertainty about China's jewelry sales trends and some unease that instances of Hong Kong residents' hostility toward mainland tourists might discourage them from visiting.

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, 2014, the U.S. dollar declined in value relative to many currencies in which the Fund's investments were traded. As a result, the Fund's performance was positively affected by the portfolio's investment predominantly in securities with non-U.S. currency exposure. However, one cannot expect the same result in future periods.

In the past six months, our continued search for investments we considered to be attractively valued led us to increase the Fund's holdings largely in Thailand, Russia, South Africa and China via China H and Red Chip shares.[2] We initiated investments in several markets, including Greece and Peru, and made some purchases in other emerging market countries, including Turkey, Indonesia and Taiwan. Additionally, we made some purchases in certain developed market countries, such as Austria and Belgium, where we identified companies that have significant emerging market operations, giving them the potential to benefit from emerging market countries' stronger personal income and consumer demand growth. In sector terms, we increased investments largely in materials, energy, IT and financials.[3] Key purchases included new positions in Brilliance China Automotive Holdings; Siam Commercial Bank, one of Thailand's biggest banks; and Naspers, a South Africa-based multinational media group that engages in Internet, pay television and print media businesses.

Conversely, we reduced the Fund's investments largely in Hong Kong, the UAE and Brazil as we focused on opportunities we considered to be more attractively valued within our investment

Top 10 Holdings
6/30/14

Company ***Sector/Industry, Country***	**% of Total Net Assets**
Remgro Ltd. *Diversified Financial Services, South Africa*	5.0%
Unilever PLC *Food Products, U.K.*	4.5%
Brilliance China Automotive Holdings Ltd. *Automobiles, China*	4.1%
Tata Consultancy Services Ltd. *IT Services, India*	3.9%
Itau Unibanco Holding SA, ADR *Banks, Brazil*	3.5%
Compagnie Financiere Richemont SA *Textiles, Apparel & Luxury Goods, Switzerland*	3.3%
Siam Commercial Bank PCL, fgn. *Banks, Thailand*	3.3%
TSMC (Taiwan Semiconductor Manufacturing Co. Ltd.) *Semiconductors & Semiconductor Equipment, Taiwan*	3.3%
Industries Qatar QSC *Industrial Conglomerates, Qatar*	3.2%
Naspers Ltd., N *Media, South Africa*	3.1%

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI).

2. "China H" denotes shares of China-incorporated, Hong Kong Stock Exchange-listed companies with most businesses in China. "Red Chip" denotes shares of Hong Kong Stock Exchange-listed companies substantially owned by Chinese mainland state entities, with significant exposure to China.

3. The materials sector comprises chemicals, construction materials, and metals and mining in the SOI. The energy sector comprises oil, gas and consumable fuels in the SOI. The IT sector comprises Internet software and services, IT services, and semiconductors and semiconductor equipment in the SOI. The financials sector comprises banks, diversified financial services, and real estate management and development in the SOI.

universe. Additionally, we eliminated the Fund's exposure to certain markets, including Macau and Singapore. In sector terms, some of the largest sales were in financials, consumer staples and consumer discretionary.[4] Key sales included reductions of the Fund's holdings in Emaar Properties and in Ambev, a Brazil-based company that is one of world's largest beer and soft drink producers. We closed the Fund's position in British American Tobacco, a major global tobacco company. We also closed the Fund's positions in Macau casino operators, namely the aforementioned SJM Holdings and MGM China Holdings, as well as Sands China and Melco Crown Entertainment.

Thank you for your participation in Templeton Developing Markets VIP Fund. We look forward to serving your future investment needs.

The foregoing information reflects our analysis, opinions and portfolio holdings as of June 30, 2014, 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.

4. The consumer staples sector comprises beverages, food products, food staples and retailing, personal products and tobacco in the SOI. The consumer discretionary sector comprises automobiles; media; hotels, restaurants and leisure; specialty retail; and textiles, apparel and luxury goods in the SOI.

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 × $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 1/1/14	Ending Account Value 6/30/14	Fund-Level Expenses Incurred During Period* 1/1/14–6/30/14
Actual	$1,000	$1,007.70	$8.06
Hypothetical (5% return before expenses)	$1,000	$1,016.76	$8.10

*Expenses are calculated using the most recent six-month annualized expense ratio, net of expense waivers, for the Fund’s Class 2 shares (1.62%), 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 AUGUST 1, 2014
TO THE PROSPECTUS DATED MAY 1, 2014
OF
TEMPLETON DEVELOPING MARKETS VIP FUND
(a series of Franklin Templeton Variable Insurance Products Trust)

The prospectus is amended as follows:

I. The "Fund Summary – Annual Fund Operating Expenses" table beginning on page TD-S1 in the Fund's Class 1 prospectus is replaced with the following:

Annual Fund Operating Expenses
(expenses that you pay each year as a percentage of the value of your investment)

	Class 1
Management fees[1]	1.24%
Distribution and service (12b-1) fees	None
Other expenses[1]	0.11%
Total annual Fund operating expenses	**1.35%**

1. Management fees and other expenses have been restated to reflect current fiscal year fees and expenses as a result of the bundling of the Fund's investment management agreement with its fund administration agreement effective May 1, 2014. Such combined investment management fees are described further under "Management" in the Fund's prospectus. Total annual fund operating expenses are not affected by such bundling.

II. The "Fund Summary – Annual Fund Operating Expenses" table beginning on page TD-S1 in the Fund's Class 2 prospectus is replaced with the following:

Annual Fund Operating Expenses
(expenses that you pay each year as a percentage of the value of your investment)

	Class 2
Management fees[1]	1.24%
Distribution and service (12b-1) fees	0.25%
Other expenses[1]	0.11%
Total annual Fund operating expenses	**1.60%**

1. Management fees and other expenses have been restated to reflect current fiscal year fees and expenses as a result of the bundling of the Fund's investment management agreement with its fund administration agreement effective May 1, 2014. Such combined investment management fees are described further under "Management" in the Fund's prospectus. Total annual fund operating expenses are not affected by such bundling.

III. The "Fund Summary – Annual Fund Operating Expenses" table beginning on page TD-S1 in the Fund's Class 4 prospectus is replaced with the following:

Annual Fund Operating Expenses
(expenses that you pay each year as a percentage of the value of your investment)

	Class 4
Management fees[1]	1.24%
Distribution and service (12b-1) fees	0.35%
Other expenses[1]	0.11%
Total annual Fund operating expenses	**1.70%**

1. Management fees and other expenses have been restated to reflect current fiscal year fees and expenses as a result of the bundling of the Fund's investment management agreement with its fund administration agreement effective May 1, 2014. Such combined investment management fees are described further under "Management" in the Fund's prospectus. Total annual fund operating expenses are not affected by such bundling.

IV. The following is added as the second to last paragraph in the "Fund Details – Management" section of each Class' prospectus beginning on page TD-D7:

Effective May 1, 2014, the Fund's investment management agreement was bundled with its fund administration agreement, including the fees payable to the Fund's administrator thereunder, as approved by the board of trustees. The fee payable to the administrator under the Fund's administration agreement, prior to May 1, 2014, was a monthly fee under the following fee schedule of the Fund's average daily 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.

As of such date, the Fund's investment management fees became a monthly fee at the annual rate of the value of the Fund's average daily net assets as set forth below:

- 1.250% up to and including $200 million;
- 1.235% over $200 million, up to and including $700 million;
- 1.200% over $700 million, up to and including $1 billion;
- 1.150% over $1 billion, up to and including $1.2 billion;
- 1.125% over $1.2 billion, up to and including $5 billion;
- 1.075% over $5 billion, up to and including $10 billion;
- 1.025% over $10 billion, up to and including $15 billion;
- 0.975% over $15 billion, up to and including $20 billion;
- 0.925% in excess of $20 billion.

Please keep this supplement with your prospectus for future reference.

Financial Highlights

Templeton Developing Markets VIP Fund

	Six Months Ended June 30, 2014 (unaudited)	Year Ended December 31,				
		2013	2012	2011	2010	2009
Class 1						
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	$10.26	$10.58	$ 9.50	$11.40	$ 9.86	$6.11
Income from investment operations[a]:						
Net investment income[b]	0.11	0.13	0.19	0.17	0.09	0.12
Net realized and unrealized gains (losses)	(0.02)	(0.22)	1.06	(1.94)	1.63	4.02
Total from investment operations	0.09	(0.09)	1.25	(1.77)	1.72	4.14
Less distributions from:						
Net investment income	(0.17)	(0.23)	(0.17)	(0.13)	(0.18)	(0.36)
Net realized gains	—	—	—	—	—	(0.03)
Total distributions	(0.17)	(0.23)	(0.17)	(0.13)	(0.18)	(0.39)
Redemption fees[c]	—	—	—	—	—	—
Net asset value, end of period	$10.18	$10.26	$10.58	$ 9.50	$11.40	$9.86
Total return[d]	0.93%	(0.73)%	13.40%	(15.67)%	17.83%	73.32%
Ratios to average net assets[e]						
Expenses before waiver and payments by affiliates	1.38%	1.35%	1.35%	1.40%	1.49%	1.45%
Expenses net of waiver and payments by affiliates	1.37%	1.35%	1.35%	1.40%	1.49%[f]	1.45%[f]
Net investment income	2.17%	1.25%	1.93%	1.57%	0.87%	1.64%
Supplemental data						
Net assets, end of period (000's)	$135,486	$145,707	$203,568	$232,544	$347,242	$325,927
Portfolio turnover rate	61.52%	44.59%	24.45%	14.90%	24.41%	56.58%[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 fair 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 a redemption in-kind.

Templeton Developing Markets VIP Fund (continued)

	Six Months Ended June 30, 2014 (unaudited)	Year Ended December 31,				
		2013	2012	2011	2010	2009
Class 2						
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	$10.19	$10.50	$ 9.42	$11.30	$ 9.78	$6.04
Income from investment operations[a]:						
Net investment income[b]	0.09	0.10	0.17	0.14	0.06	0.11
Net realized and unrealized gains (losses)	(0.02)	(0.21)	1.05	(1.92)	1.62	3.98
Total from investment operations	0.07	(0.11)	1.22	(1.78)	1.68	4.09
Less distributions from:						
Net investment income	(0.15)	(0.20)	(0.14)	(0.10)	(0.16)	(0.32)
Net realized gains	—	—	—	—	—	(0.03)
Total distributions	(0.15)	(0.20)	(0.14)	(0.10)	(0.16)	(0.35)
Redemption fees[c]	—	—	—	—	—	—
Net asset value, end of period	$10.11	$10.19	$10.50	$ 9.42	$11.30	$9.78
Total return[d]	0.77%	(0.92)%	13.16%	(15.86)%	17.58%	72.59%
Ratios to average net assets[e]						
Expenses before waiver and payments by affiliates	1.63%	1.60%	1.60%	1.65%	1.74%	1.70%
Expenses net of waiver and payments by affiliates	1.62%	1.60%	1.60%	1.65%	1.74%[f]	1.70%[f]
Net investment income	1.92%	1.00%	1.68%	1.32%	0.62%	1.39%
Supplemental data						
Net assets, end of period (000's)	$301,279	$274,683	$291,638	$295,223	$392,546	$435,947
Portfolio turnover rate	61.52%	44.59%	24.45%	14.90%	24.41%	56.58%[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 fair 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 a redemption in-kind.

Templeton Developing Markets VIP Fund (continued)

	Six Months Ended June 30, 2014 (unaudited)	Year Ended December 31, 2013	2012	2011	2010	2009
Class 4						
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	$10.20	$10.50	$ 9.42	$11.30	$ 9.80	$6.09
Income from investment operations[a]:						
Net investment income[b]	0.09	0.10	0.16	0.13	0.05	0.09
Net realized and unrealized gains (losses)	(0.02)	(0.21)	1.04	(1.91)	1.61	4.00
Total from investment operations	0.07	(0.11)	1.20	(1.78)	1.66	4.09
Less distributions from:						
Net investment income	(0.13)	(0.19)	(0.12)	(0.10)	(0.16)	(0.35)
Net realized gains	—	—	—	—	—	(0.03)
Total distributions	(0.13)	(0.19)	(0.12)	(0.10)	(0.16)	(0.38)
Redemption fees[c]	—	—	—	—	—	—
Net asset value, end of period	$10.14	$10.20	$10.50	$ 9.42	$11.30	$9.80
Total return[d]	0.65%	(1.07)%	13.06%	(15.88)%	17.41%	72.45%
Ratios to average net assets[e]						
Expenses before waiver and payments by affiliates	1.73%	1.70%	1.70%	1.75%	1.84%	1.80%
Expenses net of waiver and payments by affiliates	1.72%	1.70%	1.70%	1.75%	1.84%[f]	1.80%[f]
Net investment income	1.82%	0.90%	1.58%	1.22%	0.52%	1.29%
Supplemental data						
Net assets, end of period (000's)	$13,980	$15,225	$23,341	$24,380	$37,198	$26,362
Portfolio turnover rate	61.52%	44.59%	24.45%	14.90%	24.41%	56.58%[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 fair 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 a redemption in-kind.

Statement of Investments, June 30, 2014 (unaudited)

Templeton Developing Markets VIP Fund

	Industry	Shares	Value
Common Stocks 90.9%			
Argentina 0.1%			
[a] Grupo Clarin SA, B, GDR, Reg S	Media	70,355	$ 513,592
Australia 0.4%			
BHP Billiton Ltd.	Metals & Mining	56,757	1,922,148
Austria 0.1%			
OMV AG	Oil, Gas & Consumable Fuels	13,000	587,494
Belgium 3.1%			
Anheuser-Busch InBev NV	Beverages	120,577	13,853,917
Brazil 10.4%			
Ambev SA	Beverages	1,856,450	13,237,259
Itau Unibanco Holding SA, ADR	Banks	1,090,710	15,684,410
M Dias Branco SA	Food Products	149,700	6,618,565
Souza Cruz SA	Tobacco	1,098,228	11,313,947
			46,854,181
Chile 0.6%			
Sociedad Quimica Y Minera de Chile SA Soquimich, ADR	Chemicals	94,287	2,763,552
China 13.9%			
[b] Aluminum Corp. of China Ltd., H	Metals & Mining	1,324,000	474,904
Angang Steel Co. Ltd., H	Metals & Mining	3,772,000	2,428,540
Brilliance China Automotive Holdings Ltd.	Automobiles	9,805,700	18,345,083
China Construction Bank Corp., H	Banks	6,283,300	4,750,710
China Mobile Ltd.	Wireless Telecommunication Services	542,000	5,258,843
[b] China Shipping Development Co. Ltd., H	Marine	6,101,100	3,565,984
Industrial and Commercial Bank of China Ltd., H	Banks	7,018,300	4,437,119
NetEase Inc., ADR	Internet Software & Services	36,003	2,821,195
PetroChina Co. Ltd., H	Oil, Gas & Consumable Fuels	6,136,600	7,743,544
Tencent Holdings Ltd.	Internet Software & Services	827,000	12,644,363
			62,470,285
Greece 0.3%			
[b] National Bank of Greece SA	Banks	312,080	1,141,099
Hong Kong 0.6%			
Dairy Farm International Holdings Ltd.	Food & Staples Retailing	187,433	1,998,036
Giordano International Ltd.	Specialty Retail	1,358,200	800,853
[b] Summit Ascent Holdings Ltd.	Trading Companies & Distributors	50,400	38,757
			2,837,646
India 6.6%			
Dr. Reddy's Laboratories Ltd.	Pharmaceuticals	68,010	2,961,312
Tata Consultancy Services Ltd.	IT Services	438,340	17,658,037
Tata Motors Ltd.	Automobiles	1,285,800	9,230,314
			29,849,663
Indonesia 2.5%			
Astra International Tbk PT	Automobiles	11,424,700	7,010,940
Bank Danamon Indonesia Tbk PT	Banks	3,377,400	1,180,879
Semen Indonesia (Persero) Tbk PT	Construction Materials	2,531,000	3,218,459
			11,410,278

Templeton Developing Markets VIP Fund (continued)

	Industry	Shares	Value
Common Stocks (continued)			
Kenya 0.7%			
Equity Bank Ltd.	Banks	2,662,201	$ 1,428,350
Kenya Commercial Bank Ltd.	Banks	3,217,000	1,872,911
			3,301,261
Luxembourg 0.0%[†]			
[a] O'Key Group SA, GDR, Reg S	Food & Staples Retailing	600	5,511
Nigeria 0.4%			
Nigerian Breweries PLC	Beverages	1,467,239	1,548,727
Pakistan 0.6%			
United Bank Ltd.	Banks	1,465,400	2,506,605
Peru 0.4%			
Compania de Minas Buenaventura SA, ADR	Metals & Mining	153,850	1,816,968
Philippines 0.9%			
Ayala Corp.	Diversified Financial Services	193,800	2,876,458
[b] Bloomberry Resorts Corp.	Hotels, Restaurants & Leisure	1,112,200	274,321
[b] Melco Crown Philippines Resorts Corp.	Hotels, Restaurants & Leisure	2,837,100	745,288
			3,896,067
Qatar 3.2%			
Industries Qatar QSC	Industrial Conglomerates	312,223	14,493,679
Romania 0.2%			
[c] Societatea Nationala de Gaze Naturale ROMGAZ SA, 144A	Oil, Gas & Consumable Fuels	85,800	929,871
Russia 7.4%			
Gazprom OAO, ADR	Oil, Gas & Consumable Fuels	509,300	4,438,549
[d] LUKOIL Holdings, ADR	Oil, Gas & Consumable Fuels	29,958	1,788,792
[d] LUKOIL Holdings, ADR (London Stock Exchange)	Oil, Gas & Consumable Fuels	38,918	2,323,794
[a,b] Mail.ru Group Ltd., GDR, Reg S	Internet Software & Services	68,025	2,397,881
Mining and Metallurgical Co. Norilsk Nickel OJSC, ADR	Metals & Mining	540,000	10,697,400
[b] Yandex NV, A	Internet Software & Services	331,568	11,817,084
			33,463,500
South Africa 8.9%			
MTN Group Ltd.	Wireless Telecommunication Services	176,100	3,708,248
Naspers Ltd., N	Media	118,190	13,911,242
Remgro Ltd.	Diversified Financial Services	1,032,124	22,317,244
			39,936,734
South Korea 3.5%			
Grand Korea Leisure Co. Ltd.	Hotels, Restaurants & Leisure	170,220	6,997,186
Hyundai Development Co.	Construction & Engineering	57,780	1,835,600
Samsung Electronics Co. Ltd.	Semiconductors & Semiconductor Equipment	3,858	5,039,798
SK Innovation Co. Ltd.	Oil, Gas & Consumable Fuels	17,532	1,957,624
			15,830,208
Sweden 0.5%			
[e] Oriflame Cosmetics SA, SDR	Personal Products	92,706	2,160,471
Switzerland 3.4%			
Compagnie Financiere Richemont SA	Textiles, Apparel & Luxury Goods	143,641	15,071,089

Templeton Developing Markets VIP Fund (continued)

	Industry	Shares	Value
Common Stocks (continued)			
Taiwan 3.6%			
Novatek Microelectronics Corp. Ltd.	Semiconductors & Semiconductor Equipment	252,000	$ 1,240,071
Taiwan Semiconductor Manufacturing Co. Ltd.	Semiconductors & Semiconductor Equipment	3,505,000	14,842,497
			16,082,568
Thailand 9.0%			
Kasikornbank PCL, fgn.	Banks	705,800	4,460,203
Land and Houses PCL, fgn.	Real Estate Management & Development	9,006,200	2,734,620
PTT Exploration and Production PCL, fgn.	Oil, Gas & Consumable Fuels	609,700	3,148,112
PTT PCL, fgn.	Oil, Gas & Consumable Fuels	593,300	5,815,949
Quality Houses PCL, fgn.	Real Estate Management & Development	20,757,100	2,265,109
Siam Commercial Bank PCL, fgn.	Banks	2,869,800	14,906,329
Thai Beverage PCL, fgn.	Beverages	14,863,200	7,391,958
			40,722,280
Turkey 2.9%			
Akbank TAS	Banks	1,260,000	4,631,654
Tupras-Turkiye Petrol Rafinerileri AS	Oil, Gas & Consumable Fuels	91,900	2,142,252
Turkiye Garanti Bankasi AS	Banks	1,636,500	6,401,748
			13,175,654
United Arab Emirates 0.4%			
Emaar Properties PJSC	Real Estate Management & Development	793,238	1,816,361
United Kingdom 4.5%			
Unilever PLC	Food Products	450,037	20,415,440
United States 1.7%			
Avon Products Inc.	Personal Products	537,046	7,846,242
Vietnam 0.1%			
DHG Pharmaceutical JSC	Pharmaceuticals	54,400	249,939
Total Common Stocks (Cost $334,685,369)			409,473,030
[f] **Participatory Notes (Cost $2,030,659) 0.6%**			
Saudi Arabia 0.6%			
[c] HSBC Bank PLC, Etihad Etisalat Co., 144A, 12/05/14	Wireless Telecommunication Services	129,805	2,838,024
Preferred Stocks 4.2%			
Brazil 2.6%			
Petroleo Brasileiro SA, ADR, pfd.	Oil, Gas & Consumable Fuels	454,600	7,109,944
Vale SA, ADR, pfd., A	Metals & Mining	391,400	4,657,660
			11,767,604
Chile 0.9%			
Embotelladora Andina SA, pfd., A	Beverages	1,374,417	4,218,458

Templeton Developing Markets VIP Fund (continued)

	Industry	Shares	Value
Preferred Stocks (continued)			
Russia 0.7%			
Sberbank of Russia, pfd.	Banks	1,538,200	$ 3,123,212
Total Preferred Stocks (Cost $18,100,263)			19,109,274
Total Investments before Short Term Investments (Cost $354,816,291)			431,420,328
Short Term Investments 5.2%			
Money Market Funds (Cost $22,475,010) 5.0%			
United States 5.0%			
[b,g] Institutional Fiduciary Trust Money Market Portfolio		22,475,010	22,475,010
[h] **Investments from Cash Collateral Received for Loaned Securities (Cost $1,128,696) 0.2%**			
Money Market Funds 0.2%			
United States 0.2%			
[i] BNY Mellon Overnight Government Fund, 0.082%		1,128,696	1,128,696
Total Investments (Cost $378,419,997) 100.9%			455,024,034
Other Assets, less Liabilities (0.9)%			(4,279,758)
Net Assets 100.0%			$ 450,744,276

See Abbreviations on page TD-27.

[†] Rounds to less than 0.1% of net assets.

[a] Security was purchased pursuant to Regulation S under the Securities Act of 1933, which exempts from registration securities offered and sold outside of the United States. Such a security cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At June 30, 2014, the aggregate value of these securities was $2,916,984, representing 0.65% of net assets.

[b] Non-income producing.

[c] 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, 2014, the aggregate value of these securities was $3,767,895, representing 0.84% of net assets.

[d] At June 30, 2014, 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.

[e] A portion or all of the security is on loan at June 30, 2014. See Note 1(d).

[f] See Note 1(c) regarding Participatory Notes.

[g] See Note 3(e) regarding investments in the Institutional Fiduciary Trust Money Market Portfolio.

[h] See Note 1(d) regarding securities on loan.

[i] The rate shown is the annualized seven-day yield at period end.

Financial Statements

Statement of Assets and Liabilities

June 30, 2014 (unaudited)

	Templeton Developing Markets VIP Fund
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	$355,944,987
Cost - Sweep Money Fund (Note 3e)	22,475,010
Total cost of investments	$378,419,997
Value - Unaffiliated issuers	$432,549,024
Value - Sweep Money Fund (Note 3e)	22,475,010
Total value of investments (Includes securities loaned in the amount of $1,080,236)	455,024,034
Cash	107,481
Foreign currency, at value (cost $17,472)	17,472
Receivables:	
Investment securities sold	1,384,670
Capital shares sold	63,398
Dividends	1,134,916
Foreign tax	25,537
Other assets	201
Total assets	457,757,709
Liabilities:	
Payables:	
Investment securities purchased	4,473,528
Capital shares redeemed	451,991
Management fees	456,460
Distribution fees	133,506
Trustees' fees and expenses	102
Payable upon return of securities loaned	1,128,696
Deferred tax	15,134
Accrued expenses and other liabilities	354,016
Total liabilities	7,013,433
Net assets, at value	$450,744,276
Net assets consist of:	
Paid-in capital	$348,211,368
Distributions in excess of net investment income	(2,913,174)
Net unrealized appreciation (depreciation)	76,541,780
Accumulated net realized gain (loss)	28,904,302
Net assets, at value	$450,744,276

Statement of Assets and Liabilities (continued)
June 30, 2014 (unaudited)

	Templeton Developing Markets VIP Fund
Class 1:	
Net assets, at value	$135,485,746
Shares outstanding	13,309,893
Net asset value and maximum offering price per share	$ 10.18
Class 2:	
Net assets, at value	$301,278,598
Shares outstanding	29,786,460
Net asset value and maximum offering price per share	$ 10.11
Class 4:	
Net assets, at value	$ 13,979,932
Shares outstanding	1,378,402
Net asset value and maximum offering price per share	$ 10.14

Statement of Operations

for the six months ended June 30, 2014 (unaudited)

	Templeton Developing Markets VIP Fund
Investment income:	
Dividends (net of foreign taxes of $477,114)	$ 7,819,279
Income from securities loaned	29,839
Total investment income	7,849,118
Expenses:	
Management fees (Note 3a)	2,544,970
Administrative fees (Note 3b)	207,590
Distribution fees: (Note 3c)	
Class 2	339,802
Class 3	27,045
Class 4	24,750
Custodian fees (Note 4)	149,935
Reports to shareholders	97,631
Professional fees	34,679
Trustees' fees and expenses	1,074
Other	11,251
Total expenses	3,438,727
Expenses waived/paid by affiliates (Note 3e)	(9,804)
Net expenses	3,428,923
Net investment income	4,420,195
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments	55,794,187
Foreign currency transactions	64,531
Net realized gain (loss)	55,858,718
Net change in unrealized appreciation (depreciation) on:	
Investments	(57,238,411)
Translation of other assets and liabilities denominated in foreign currencies	(24,412)
Change in deferred taxes on unrealized appreciation	(15,134)
Net change in unrealized appreciation (depreciation)	(57,277,957)
Net realized and unrealized gain (loss)	(1,419,239)
Net increase (decrease) in net assets resulting from operations	$ 3,000,956

Statements of Changes in Net Assets

	Templeton Developing Markets VIP Fund	
	Six Months Ended June 30, 2014 (unaudited)	Year Ended December 31, 2013
Increase (decrease) in net assets:		
Operations:		
Net investment income	$ 4,420,195	$ 5,556,147
Net realized gain (loss) from investments and foreign currency transactions	55,858,718	67,962,625
Net change in unrealized appreciation (depreciation) on investments, translation of other assets and liabilities denominated in foreign currencies and deferred taxes	(57,277,957)	(79,189,158)
Net increase (decrease) in net assets resulting from operations	3,000,956	(5,670,386)
Distributions to shareholders from:		
Net investment income:		
Class 1	(2,319,775)	(3,816,779)
Class 2	(4,358,800)	(5,449,449)
Class 3	—	(777,644)
Class 4	(173,399)	(373,848)
Total distributions to shareholders	(6,851,974)	(10,417,720)
Capital share transactions: (Note 2)		
Class 1	(8,793,874)	(52,075,044)
Class 2	27,936,429	(8,867,643)
Class 3	(33,674,042)	(12,240,084)
Class 4	(1,138,997)	(7,287,727)
Total capital share transactions	(15,670,484)	(80,470,498)
Redemption fees	68	1,204
Net increase (decrease) in net assets	(19,521,434)	(96,557,400)
Net assets:		
Beginning of period	470,265,710	566,823,110
End of period	$450,744,276	$470,265,710
Distributions in excess of net investment income included in net assets:		
End of period	$ (2,913,174)	$ (481,395)

Notes to Financial Statements (unaudited)

Templeton Developing Markets VIP 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 management investment company, consisting of twenty separate funds and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP). The Templeton Developing Markets VIP 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 three classes of shares: Class 1, Class 2, and Class 4. Effective May 1, 2014, all Class 3 shares were converted to Class 2. Each class of shares differs by its distribution fees, voting rights on matters affecting a single class and its exchange privilege.

Effective May 1, 2014, the Templeton Developing Markets Securities Fund was renamed the Templeton Developing Markets VIP Fund.

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. The Fund calculates the net asset value (NAV) per share at the close of the New York Stock Exchange (NYSE), generally at 4 p.m. Eastern time (NYSE close) on each day the NYSE is open for trading. Under compliance policies and procedures approved by the Trust's Board of Trustees (the Board), the Fund's administrator has responsibility for oversight of valuation, including leading the cross-functional 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 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 as of the NYSE close, whichever is earlier. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the NYSE close 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 and non-registered money market funds are valued at the closing net asset value.

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the VLOC convenes on a regular basis to review such financial instruments and considers a number of factors, including significant unobservable valuation inputs, when arriving at fair value. The VLOC primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The VLOC employs various methods for calibrating these valuation approaches including a regular review of key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before the daily NYSE close. In addition, trading in certain foreign markets may not take place on every NYSE business day. 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

Templeton Developing Markets VIP Fund (continued)

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 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.

Also, when the last day of the reporting period is a non-business day, certain foreign markets may be open on those 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 fair value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the fair value of loaned securities, as determined at the close of fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is invested in a non-registered money fund as indicated on the Statement of Investments. The Fund receives income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Fund. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower.

Templeton Developing Markets VIP Fund (continued)

1. Organization and Significant Accounting Policies (continued)

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, 2014, 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 U.S. 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 amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

h. Redemption Fees

Redemptions and exchanges of interests in an insurance company subaccount that invested in Class 3 shares of the Fund were subject to a 1.0% short term trading fee if the interest in the subaccount had been held for less than 60 days. Such fees were 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.

Templeton Developing Markets VIP Fund (continued)

2. Shares of Beneficial Interest

At June 30, 2014, 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, 2014		Year Ended December 31, 2013	
	Shares	Amount	Shares	Amount
Class 1 Shares:				
Shares sold	745,405	$ 7,471,902	1,118,729	$ 11,636,774
Shares issued in reinvestment of distributions	229,681	2,319,775	392,673	3,816,779
Shares redeemed	(1,861,045)	(18,585,551)	(6,552,381)	(67,528,597)
Net increase (decrease)	(885,959)	$ (8,793,874)	(5,040,979)	$(52,075,044)
Class 2 Shares:				
Shares sold	5,902,160	$ 58,483,619	5,110,513	$ 51,867,557
Shares issued in reinvestment of distributions	434,143	4,358,800	564,125	5,449,449
Shares redeemed	(3,516,666)	(34,905,990)	(6,483,017)	(66,184,649)
Net increase (decrease)	2,819,637	$ 27,936,429	(808,379)	$ (8,867,643)
Class 3 Shares[a]:				
Shares sold	171,371	$ 1,697,483	410,783	$ 4,328,836
Shares issued in reinvestment of distributions	—	—	81,005	777,644
Shares redeemed	(3,593,907)	(35,371,525)	(1,696,602)	(17,346,564)
Net increase (decrease)	(3,422,536)	$(33,674,042)	(1,204,814)	$(12,240,084)
Class 4 Shares:				
Shares sold	37,229	$ 367,546	206,201	$ 2,099,934
Shares issued on reinvestment of distributions	17,219	173,399	38,661	373,848
Shares redeemed	(169,287)	(1,679,942)	(973,500)	(9,761,509)
Net increase (decrease)	(114,839)	$ (1,138,997)	(728,638)	$ (7,287,727)

[a]Effective May 1, 2014, all Class 3 shares were converted to Class 2.

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

Templeton Developing Markets VIP Fund (continued)

3. Transactions With Affiliates (continued)

a. Management Fees

The Fund pays an investment management fee to TAML based on the average daily net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
1.250%	Up to and including $200 million
1.235%	Over $200 million, up to and including $700 million
1.200%	Over $700 million, up to and including $1 billion
1.150%	Over $1 billion, up to and including $1.2 billion
1.125%	Over $1.2 billion, up to and including $5 billion
1.075%	Over $5 billion, up to and including $10 billion
1.025%	Over $10 billion, up to and including $15 billion
0.975%	Over $15 billion, up to and including $20 billion
0.925%	In excess of $20 billion

Effective May 1, 2014, the Fund combined its investment management and administration agreements as approved by the Board. The fees paid under the combined agreement do not exceed the aggregate fees that were paid under the separate agreements.

Prior to May 1, 2014, the Fund paid fees 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

Effective, May 1, 2014, under an agreement with TAML, FT Services provides administrative services to the Fund. The fee is paid by TAML based on the Fund's average daily net assets, and is not an additional expense of the Fund.

Prior to May 1, 2014, the Fund paid administrative fees to FT Services based on the average daily net assets of the Fund 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

Templeton Developing Markets VIP Fund (continued)

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. The plan year, for purposes of monitoring compliance with the maximum annual plan rates, is February 1 through January 31.

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.

e. Investment in Institutional Fiduciary Trust Money Market Portfolio

The Fund invests in the Institutional Fiduciary Trust Money Market Portfolio (Sweep Money Fund), an affiliated open-end management investment company. Management fees paid by the Fund are waived on assets invested in the Sweep Money Fund, in an amount not to exceed the management and administrative fees paid directly or indirectly by the Sweep Money Fund, as noted on the Statement of Operations. Prior to January 1, 2014, the waiver was accounted for as a reduction to management fees.

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, 2014, 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, 2013, the Fund had capital loss carryforwards of $21,512,788 expiring in 2017.

At June 30, 2014, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	$391,637,946
Unrealized appreciation	$ 70,234,167
Unrealized depreciation	(6,848,079)
Net unrealized appreciation (depreciation)	$ 63,386,088

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of foreign currency transactions, passive foreign investment company shares, corporate actions and wash sales.

6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the period ended June 30, 2014, aggregated $261,157,894 and $285,458,370, respectively.

7. 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.

Templeton Developing Markets VIP Fund (continued)

8. 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 February 13, 2015. 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, 2014, the Fund did not use the Global Credit Facility.

9. 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 input levels are not necessarily an indication of the risk or liquidity associated with financial instruments at that level.

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, 2014, in valuing the Fund's assets carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities:				
Equity Investments:[a]				
Russia	$ 19,661,971	$16,924,741	$ —	$ 36,586,712
All Other Equity Investments[b]	391,995,592	—	—	391,995,592
Participatory Notes	—	2,838,024	—	2,838,024
Short Term Investments	22,475,010	1,128,696	—	23,603,706
Total Investments in Securities	$434,132,573	$20,891,461	$ —	$455,024,034

[a]Includes common and preferred stocks.

[b]For detailed categories, see the accompanying Statement of Investments.

Templeton Developing Markets VIP Fund (continued)

10. New Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-11, Transfers and Servicing (Topic 860), Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The ASU changes the accounting for certain repurchase agreements and expands disclosure requirements related to repurchase agreements, securities lending, repurchase-to-maturity and similar transactions. The ASU is effective for interim and annual reporting periods beginning after December 15, 2014. Management is currently evaluating the impact, if any, of applying this provision.

11. Subsequent Events

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure.

Abbreviations

Selected Portfolio

ADR American Depositary Receipt
GDR Global Depositary Receipt
SDR Swedish Depositary Receipt

Templeton Developing Markets VIP Fund

At December 31, 2013, 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 12, 2014, to treat their proportionate share of foreign taxes paid by the Fund as having been paid directly by them. The shareholder shall consider these amounts as foreign taxes paid in the tax year in which they receive the Fund distribution.

The following table provides a detailed analysis of foreign tax paid, and foreign source income as reported by the Fund, to Class 1, Class 2, and Class 4 shareholders of record.

Class	Foreign Tax Paid Per Share	Foreign Source Income Per Share
Class 1	$0.0221	$0.2041
Class 2	$0.0221	$0.1809
Class 4	$0.0221	$0.1564

Foreign Tax Paid Per Share (Column 1) is the amount per share available to you, as a tax credit (assuming you held your shares in the Fund for a minimum of 16 days during the 31-day period beginning 15 days before the ex-dividend date of the Fund's distribution to which the foreign taxes relate), or, as a tax deduction.

Foreign Source Income Per Share (Column 2) is the amount per share of income dividends attributable to foreign securities held by the Fund, plus any foreign taxes withheld on these dividends.

The indexes are unmanaged and include reinvested distributions.

Source for MSCI Indexes: MSCI.

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) 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.

Dow Jones-UBS Commodity Index is a broadly diversified index designed to allow investors to track commodity futures through a single, simple measure. The index reflects the return on fully collateralized positions in the underlying futures contracts on physical commodities, which are reweighted and rebalanced annually on a price-percentage basis. The Dow Jones-UBS Commodity Indices℠ are a joint product of DJI Opco, LLC, a subsidiary of S&P Dow Jones Indices LLC, and UBS Securities LLC ("UBS") and have been licensed for use to S&P Opco, LLC and Franklin Templeton Companies, LLC. S&P® is a registered trademark of Standard & Poor's Financial Services LLC, Dow Jones® and DJ are registered trademarks of Dow Jones Trademark Holdings LLC, and "UBS" is a registered trademark of UBS AG. All content of the Dow Jones-UBS Commodity Indices℠ © S&P Dow Jones Indices LLC and UBS and their respective affiliates 2014. Reproduction of Dow Jones-UBS Commodity Indices℠ in any form is prohibited except with the prior written permission of S&P. S&P does not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions, regardless of the cause or for the results obtained from the use of such information. S&P DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P be liable for any direct, indirect, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with subscriber's or others' use of Dow Jones-UBS Commodity Indices℠.

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. The FTSE EPRA/NAREIT Developed Index ("the Index") is not in any way sponsored, endorsed, sold or promoted by FTSE International Limited ("FTSE"), by the London Stock Exchange Group companies ("LSEG"), Euronext N.V. ("Euronext"), European Public Real Estate Association ("EPRA"), or the National Association of Real Estate Investment Trusts ("NAREIT") (together the "Licensor Parties") and none of the Licensor Parties makes any warranty or representation whatsoever, expressly or impliedly, either as to the results to be obtained from the use of the Index and/or the figure at which the said Index stands at any particular time on any particular day or otherwise. The Index is compiled and calculated by FTSE. However, none of the Licensor Parties shall be liable (whether in negligence or otherwise) to any person for any error in the Index and none of the Licensor Parties shall be under any obligation to advise any person of any error therein. "FTSE®" is a trademark of LSEG, "NAREIT®" is a trademark of the National Association of Real Estate Investment Trusts and "EPRA®" is a trademark of EPRA and all are 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 6/30/14, there were 254 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 6/30/14, there were 65 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 6/30/14, there were 49 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 6/30/14, 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. S&P 500: Copyright © 2014, S&P Dow Jones Indices LLC. All rights reserved. Reproduction of S&P U.S. Index data in any form is prohibited except with the prior written permission of S&P. S&P does not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions, regardless of the cause or for the results obtained from the use of such information. S&P DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P be liable for any direct, indirect, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with subscriber's or others' use of S&P U.S. Index data.

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. S&P/IFCI Composite Index: Copyright © 2014, S&P Dow Jones Indices LLC. All rights reserved. Reproduction of S&P IFCI index data in any form is prohibited except with the prior written permission of S&P. S&P does not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions, regardless of the cause or for the results obtained from the use of such information. S&P DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P be liable for any direct, indirect, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with subscriber's or others' use of S&P IFCI index data.

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

Board Review of Investment Management Agreement

At a meeting held April 15, 2014, 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. No Lipper reports, however, were furnished with respect to the newly formed Franklin Managed Volatility Global Allocation VIP Fund in view of its short period of operation and absence of third-party shareholders. 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 them 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 continual 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 period of the 2012 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 continual 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.

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, 2014, and previous periods ended that date of up to 10 years unless otherwise noted. Performance was shown on a total return basis for each Fund and in certain cases, as indicated, on an income return basis as well. The following summarizes the performance results for each of the Funds and the Board's view of such performance.

Franklin Flex Cap Growth Securities Fund – The performance universe for this Fund, which has been in operation for less than 10 full years, consisted of the Fund and all multi-cap growth funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's comparative total return for the one-year period to be in the second-highest performing quintile of its performance universe, and on an annualized basis to be in the lowest performing quintile of such universe for each of the previous three- and five-year periods. The Board discussed with management the reasons for the Fund's underperformance during the previous three- and five-year periods, but found the Fund's overall comparative performance as shown in the Lipper report to be acceptable, noting its favorable one-year performance and that its three- and five-year performance exceeded 11.5% and 18%, respectively, as shown in the Lipper report.

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 second-lowest performing quintile 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 lowest performing quintile of such universe for each of the previous five- and 10-year periods. The Board discussed with management the reasons for the underperformance of the Fund in the one-year period and steps that had been taken by management in recent years to improve the Fund's performance, noting that the Fund's total return as shown in the Lipper report exceeded the median of its Lipper performance universe in each of the previous two-, three- and four-year periods. While the Board intends to continue to monitor the Fund's performance, it determined that such performance was acceptable.

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 highest 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 was satisfied with the Fund's comparative performance as shown in the Lipper report.

Franklin High Income Securities Fund – The performance universe for this Fund consisted of the Fund and all high 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 highest performing quintile of such universe, and on an annualized basis to be in the second-highest and middle performing quintiles of such universe for the previous three- and five-year periods, respectively, and to be in the second-lowest quintile of such universe for the previous 10-year period. The Lipper report showed the Fund's total return to be in the highest performing quintile of its performance 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, the middle quintile of such universe for the previous five-year period, and the second-highest quintile of such universe for the previous 10-year period. The Board was satisfied with the Fund's comparative performance as shown in the Lipper report.

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 be in the middle performing quintile of its performance universe for the one-year period, and on an annualized basis to be in the second-highest performing quintile of such universe for the previous three-year period, and the highest or best performing quintiles of such universe for the previous five- and 10-year periods. The Board was satisfied with the Fund's comparative performance as shown in the Lipper report.

Franklin Large Cap Growth Securities Fund – The performance universe for this Fund consisted of the Fund and all retail and institutional 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 second-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, and the lowest performing quintile of such universe for each of the previous five- and 10-year periods. 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. In particular, the Board discussed with management the appointment of a new portfolio manager for the Fund, effective May 1, 2014. In view of such discussions, the Board believed that appropriate action was being taken by management to improve performance and that no further changes in portfolio management or investment strategy were warranted, It also observed that, as shown in the Lipper report, the Fund's total return for the one-year period exceeded 19%, its five-year annualized total return was within 1.33% of the median for the performance universe for such period, and its 10-year annualized total return was within 1.0% of the median for the performance universe for such period.

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 middle performing quintile of such universe for the one-year period and on an annualized basis to also be in the lowest performing quintile of such universe for the previous three-year period, and the middle performing quintile of such universe for the previous five-year period. The Board found the Fund's performance acceptable, noting that management was taking appropriate steps to improve it, including the hiring of an experienced analyst to assist the portfolio management team. The Board also noted that the Lipper report showed the Fund's one-year total return to exceed the median of its performance universe, its annualized three-year return to be within less than 1 ½% of the performance universe median for such period, and its annualized five-year return to be at the median of the performance universe for such period.

Franklin Rising Dividends Securities Fund – The performance universe for this Fund consisted of the Fund and all multicap core funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's comparative total return to be in the middle 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 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 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 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 middle 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-highest performing quintile of such 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 noted the Fund's improved performance and discussed with management portfolio adjustments and the commitment of additional resources to the portfolio team. The Board found the Fund's performance to be acceptable and noted that the 10-year annualized performance was less than 1% below the performance universe median.

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 second-highest 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 six 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 also be in the highest 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 second-highest performing quintile of such performance universe 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. 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 was satisfied with the Fund's performance as shown in the Lipper report.

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 highest performing quintile of such universe and on an annualized basis to also be in the 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 second-highest 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 second-highest 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 and the nature of the Fund's investments, which were primarily in U.S. mortgage-backed securities.

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 second-highest 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 previous three-year period, the second-lowest performing quintile of such universe for the previous five-year period, and the highest or best performing quintile of such universe for the previous 10-year period. The Board found the Fund's overall comparative performance as set forth in the Lipper report to be satisfactory, noting that the five-year annualized total return exceeded 14%.

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 lowest 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, the lowest performing quintile of such universe for the previous five-year period, and the middle performing quintile of such universe for the previous 10-year period. The Board discussed with management the reasons for the one-year underperformance of the Fund and found the Fund's overall performance as shown in the Lipper report to be acceptable in view of the Manager's conservative style of investing and its emphasis on risk-adjusted long-term returns and limited volatility. The Board noted that the Fund was in the top half of its Lipper universe when performance is evaluated on a risk-adjusted basis. The Board also observed that the Fund's one-year total return as shown in the Lipper report was 17.76%.

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 second-lowest 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 during the previous 10-year period. The Board found the comparative performance of the Fund as set forth in the Lipper report to be acceptable in view of management's explanation that such performance was reflective of the Manager's bottom-up approach to investing, which was out of favor in current markets, and noted that the annualized performance for the three- and five-year periods exceeded the median while the performance for the 10-year period exceeded 8%. The Board also discussed with management steps it was contemplating to improve the performance, including a more rigorous ongoing review of the fundamentals of each portfolio holding and increased selling discipline where prices have declined.

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 second-highest performing quintile of such performance universe, and on an annualized basis to be in the 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 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 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, which compared its management fee and total expense ratio with those of a group of other funds selected by Lipper as its appropriate Lipper expense group. Lipper expense data is based upon information taken from each fund's most recent annual report, which reflects historical asset levels that may be quite different from those currently existing, particularly in a period of market volatility. While recognizing such inherent limitation and the fact that expense ratios generally increase as assets decline and decrease as assets grow, the Board believed the independent analysis conducted by Lipper to be an appropriate measure of comparative expenses. In reviewing comparative costs, Lipper provides information on the Funds' contractual investment management fee rate in comparison with the contractual investment management fee rate that would have been charged by other funds within its Lipper expense group assuming they were similar in size to the Fund, as well as the actual total expense ratio of the Fund in comparison with those of its Lipper expense group. The Lipper contractual investment management fee analysis includes administrative charges at the fund level as being part of a management fee, and actual total expenses, for comparative consistency, are shown by Lipper for the same class of shares for all funds within a particular Lipper expense group. The results of such comparisons showed that both the contractual investment management fee rates and actual total expense ratios of the following Funds were in the least expensive 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 Franklin Flex Cap Growth Securities Fund and Franklin Large Cap Value Securities Fund were the highest in 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 as well as actual expense ratio for Franklin Large Cap Growth Securities Fund was in each case above, but within five basis points of, the median of its Lipper expense group. The contractual investment fee rate of Mutual Shares Securities Fund was less than seven 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 and six basis points, respectively, of the median 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 five basis points above the median of its Lipper expense group, and its actual total expense ratio was less than eight basis points above the median of its Lipper expense group. The Board found the comparative expenses of this Fund to be acceptable. 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 12 basis points, respectively, of the expense group median. The Board found such expenses to be acceptable in view of the Fund's overall 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 within 10 basis points and 22 basis points, respectively, of the expense group median. The Board found such expenses to be acceptable.

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, 2013, being the most recent fiscal year-end for Franklin Resources, Inc., the Manager's parent. In reviewing the analysis, the Board recognized that allocation methodologies are inherently subjective and various allocation methodologies may be reasonable while producing different results. In this respect, the Board noted that while management continually makes refinements to its methodologies in response to organizational and product related changes, the overall approach as defined by the primary drivers and activity measurements has remained consistent with that used in the Funds' profitability report presentations from prior years. Additionally, the Funds' independent registered public accounting firm had been engaged by the Manager to periodically review the reasonableness of the allocation methodologies to be used solely by the Funds' Board in reference to the profitability analysis. In reviewing and discussing such analysis, management discussed with the Board its belief that costs incurred in establishing the infrastructure necessary for the type of mutual fund operations conducted by the Manager and its affiliates may not be fully reflected in the expenses allocated to each Fund in determining its profitability, as well as the fact that the level of profits, to a certain extent, reflected operational cost savings and efficiencies initiated by management. The Board also took into account management's expenditures in improving services provided the Funds, as well as the need to implement systems to meet additional regulatory and compliance requirements resulting from statutes such as the Sarbanes-Oxley and Dodd-Frank Acts and recent SEC and other regulatory requirements. In addition, the Board considered a third-party study comparing the profitability of the Manager's parent on an overall basis to other publicly held managers broken down to show profitability from management operations exclusive of distribution expenses, as well as profitability including distribution expenses. The Board also considered the extent to which the Manager and its affiliates might derive ancillary benefits from Fund operations, including potential benefits resulting from allocation of fund brokerage and the use of commission dollars to pay for research. Based upon its consideration of all these factors, the Board determined that the level of profits realized by the Manager and its affiliates from providing services to each Fund was not excessive in view of the nature, quality and extent of services provided.

Economies of Scale. The Board also considered whether economies of scale are realized by the Manager as the Funds grow larger and the extent to which this is reflected in the level of management fees charged. While recognizing that any precise determination is inherently subjective, the Board noted that based upon the Fund profitability analysis, it appears that as some funds get larger, at some point economies of scale do result in the Manager realizing a larger profit margin on management services provided such a fund. The Board also noted that economies of scale are shared with a fund and its shareholders through management fee breakpoints so that as a fund grows in size, its effective management fee rate declines. In the case of Franklin Templeton VIP Founding Funds Allocation Fund, the management fees of the underlying funds in which it invests have management fee breakpoints that extend beyond their existing asset sizes, and in the case of each of the other Funds, 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 fee 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 0.500% on assets in excess of $1 billion. This Fund had assets of $1.8 billion at December 31, 2013, 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 Franklin Small Cap Value Securities Fund, Mutual Global Discovery Securities Fund, Mutual Shares Securities Fund, Templeton Developing Markets Securities Fund and Templeton Foreign Securities Fund, administrative services are provided each such Fund under a separate agreement at a charge of 0.150% on the first $200 million of assets; 0.135% on the next $500 million of assets; 0.100% on the next $500 million of assets; and 0.75% on assets in excess of $1.2 billion. At the April 15, 2014, Board meeting, the Board eliminated the separate investment management and administrative agreements and approved a new form of investment management agreement for Franklin Small Cap Value Securities Fund, Mutual Global Discovery Securities Fund, Mutual Shares Securities Fund, Templeton Developing Markets Securities Fund and Templeton Foreign Securities Fund combining such services. In approving the new form of investment management agreement, the Board took into account that the types of services would be the same as provided under the previous separate agreements and that the aggregate fee, including breakpoints, would be the same as that charged under the previous separate agreements. The Board noted that combining such services was consistent with Lipper's methodology of considering contractual investment management fees to include any separately charged administrative fee.

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.

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

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 help ensure we provide you with quality service, all calls to and from our service areas are monitored and/or recorded.

VIP S 08/14