ZURICH

August 28, 2015

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, 2015. 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 19097
Greenville, SC 29602-9097

Telephone 877-301-5376
Fax 1-866-315-0729

ZURICHAMERICANLIFEINSURANCE.COM

SUPPLEMENT TO THE CURRENTLY EFFECTIVE PROSPECTUS AND SUMMARY PROSPECTUS OF THE LISTED FUND

Deutsche Money Market VIP

At a meeting on July 10, 2015, the Board approved changes to the Fund that would allow the Fund to operate as a government money market fund under the amendments to Rule 2a-7 under the Investment Company Act of 1940, as amended, that were adopted in July 2014 with final compliance dates ranging between July 2015 and October 2016. As currently structured, on the final compliance date for the Rule 2a-7 amendments, the Fund would be required to implement a floating net asset value and would be allowed, and in certain situations, required, to implement liquidity fees and/or redemption gates. As a government money market fund, the Fund will continue to seek to maintain a stable $1.00 net asset value. (Although the Fund will seek to maintain a $1.00 net asset value, there is no guarantee that it will be able do so and if the net asset value falls below $1.00, you would lose money.) The Fund will not be required to implement liquidity fees and/or redemption gates as a government money market fund. As defined in amended Rule 2a-7, a government money market fund is a fund that invests at least 99.5% of the fund's total assets in cash, government securities, and/or repurchase agreements that are collateralized by these same securities.

In order for the Fund to operate as a government money market fund, the Board approved revisions to the Fund's fundamental investment policy relating to concentration (the "Concentration Policy") such that the Fund would no longer be required to invest more than 25% of its total assets in obligations of banks and other financial institutions. If not revised, the current Concentration Policy would preclude the Fund from operating as a government money market fund. The revisions to the Concentration Policy are subject to approval by the shareholders of the Fund at a special shareholders' meeting expected to be held during the fourth quarter of 2015. No assurance can be given that shareholder approval will be obtained for the revisions to the Concentration Policy.

If the revisions to the Concentration Policy are approved by shareholders, the Board approved other changes for the Fund to operate as a government money market fund, including:

(i) The adoption of a principal investment strategy to invest at least 99.5% of the Fund's total assets in cash, government securities, and/or repurchase agreements that are collateralized by these same securities.

(ii) A name change as follows:

Current Name	New Name
Deutsche Money Market VIP	Deutsche Government Money Market VIP

(iii) A reduction in the management fee rate paid by the Fund to Deutsche Investment Management Americas Inc. ("DIMA"), the investment advisor to the Fund, as set forth below:

Current Management Fee Rate Schedule		Revised Management Fee Rate Schedule	
Average Daily Assets	**Management Fee Rate**	**Average Daily Assets**	**Management Fee Rate**
First $500 Million	0.285%	First $500 Million	0.235%
Next $500 Million	0.270%	Next $500 Million	0.220%
Next $1 Billion	0.255%	Next $1 Billion	0.205%
Over $2 Billion	0.240%	Over $2 Billion	0.190%

If shareholders approve the revisions to the Concentration Policy, DIMA currently anticipates that the change to the Concentration Policy and other changes for the Fund to operate as a government money market fund will take effect **on or about May 2, 2016**. To ensure an orderly transition to a government money market fund, DIMA anticipates that it will begin to gradually implement changes to the Fund beginning after shareholders approve the revisions to the Concentration Policy. As a result, it is expected that the Fund gradually will allocate a larger percentage of its assets to government securities over time until it reaches its new allocation on or about May 2, 2016. Because the yields on government securities generally may be expected to be lower than the yields on comparable non-government securities, it should be expected that the Fund's yield may decrease as more assets are invested in government securities.

The foregoing is not a solicitation of any proxy.

Please Retain This Supplement for Future Reference

July 20, 2015
PROSTKR-507

Deutsche Asset
& Wealth Management

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, 2015 (Unaudited)

Table of Contents

ALGER BALANCED PORTFOLIO

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.**

Dear Shareholders,

Market Rally Continues as Skeptics Cling to Pessimistic View

Pundits for many years have incorrectly opined that equity markets, both in the United States and abroad, will collapse. Those claims have been frequently repeated even as stocks have continued to generate strong returns. It's puzzling that skeptics and critics on almost any topic seem to be positioned as the smarter or wiser voices in the room. And yet, those who have been skeptical of equity markets have been wrong in meaningful ways, unlike optimists, including Alger. Indeed, the equity rally following the subprime mortgage crisis has continued, with the S&P 500 index generating a 236% return from March 3, 2009, to June 30 of this year. For the six-month reporting period, the index gained 1.23%. International equities also advanced during the reporting period, with the MSCI ACWI ex USA Index gaining 4.35% and the MSCI Emerging Markets Index returning 3.12%.

Market Volatility

In the U.S., investor sentiment was supported by strong corporate fundamentals, merger and acquisition activity, low interest rates, a strengthening labor market, and expectations that consumer spending could increase as low oil and gasoline prices reduce Americans' energy bills. Yet, market volatility continued with the S&P 500 producing 12 daily declines of more than 1% during the reporting period.

Early in the reporting period, the potential for declining oil prices to crimp energy producers' earnings and cause industrial businesses to cut capital expenditures weighed upon investor sentiment. Expectations that the Federal Reserve would raise interest rates also weighed upon investor sentiment. At other times, investors grew concerned that a combination of uneven global economic growth and a strong U.S. dollar could curtail America's exports. Concerns that Greece would fail to make debt payments to creditors who bailed the country out during the eurozone crisis also drove volatility. Rather than react quickly to daily changes in investor sentiment, we remained focused on our research-driven strategy that seeks attractive companies that have strong potential to grow earnings.

Oil Prices Jar Investors

From September 2013 to January 1, 2015, the price of West Texas Intermediate crude (WTI) dropped abruptly from $110.16 to $52.72 a barrel, a result of growing oil production in U.S. shale reserves, a strengthening U.S. dollar, and moderating global energy demand. The price decline continued with WTI hitting a low of $43.39 in mid-March. At times, the price declines caused investors to fear that the adverse impact of cheap oil on energy company profits could expand to other industries and hinder U.S. economic growth.

It appears that those fears were overblown. With 100% of S&P 500 companies having reported results, first-quarter ex-energy earnings per share increased 7.59% year over year, according to FactSet Research Systems. We acknowledge that concerns over weak earnings growth for the second quarter became more prevalent as the reporting period continued. As of May 1, analysts expected second-quarter ex-energy earnings per share to increase 4.5%. The number dropped to only 1.9% by the end of the reporting period. From a longer-term perspective, however, investors are more optimistic, with ex-energy earnings per share expected to grow more than 7% this year, according to an Alger analysis of consensus estimates. Rather than quickly sell energy holdings, we assessed if individual companies could mitigate the impacts of low oil prices on earnings by reducing capital expenditures or cutting other expenses. Broadly speaking, we continued to favor larger companies with diverse product lines, attractive balance sheets, and potential for generating strong free cash flow. The Portfolio's Energy sector weighting changed only minimally during the reporting period.

While we acknowledged that the impact of cheap oil could spread to other industries, we held to our belief that low petroleum costs could create growth opportunities for consumer companies and stimulate the U.S. economy. Indeed, savings at the gasoline pump this year could give U.S. consumers an additional $100 billion to $200 billion in disposable income and also help keep U.S. food costs down by decreasing trucking expenses, according to Goldman Sachs and the Wall Street Journal. Low oil prices are also helping energy-intensive industries, such as airlines, cut fuel expenses. With that in mind, Goldman Sachs estimates that lower energy costs could increase U.S. economic growth by 0.2% to 0.5% this year.

U.S. Economic Growth

A preliminary estimate pegged first-quarter annualized gross domestic product (GDP) growth at 0.2%. It was later revised to a disappointing 0.7% decline and then revised again to a decline of only 0.2%. In comparison, GDP grew 2.2% during the last three months of 2014. The Federal Reserve has maintained that "transitory factors" such as severe winter weather, a strong U.S. dollar, declining oil prices, and labor issues at West Coast ports during the first quarter hurt economic growth. We maintain that the economic recovery is stronger than commonly believed and that a combination of low gasoline prices and a strengthening labor market is likely to support shoppers' willingness to spend, which is significant since consumer spending represents roughly 70% of U.S. GDP. We are encouraged to have seen seasonally adjusted unemployment decline from a Great Recession high of 10% to 5.5% as of May and average first-quarter wages including employee benefits increase 4.9% year over year, according to the Labor Department's Employer Costs for Employee Compensation report.

Federal Reserve Policies

With the Federal Reserve having concluded its asset purchase program, investors have been anticipating when the central bank will increase the Fed Funds rate from the current target range of 0% to 0.25%. Fed officials have emphasized that they will patiently wait for the economy to be strong enough to withstand a rate increase. Despite those comments, investors continued to grow cautious and sold U.S. equities when favorable economic data validated fears that a rate hike was approaching. At Alger, we believe strong companies with healthy balance sheets and potential to grow their earnings may be less susceptible to the adverse impacts of higher interest rates, including increased financing costs. Interest rate increases, furthermore, are likely to be moderate. With low interest rates in many countries and widening spreads between foreign and U.S. bonds, investors abroad who are seeking income-producing securities are likely to turn to America's fixed-income market, which is likely to support bond prices and keep interest rates down.

Global Markets and a Strengthening U.S. Dollar

As the period progressed, investors grew increasingly concerned that Greece would miss a June 30 deadline for paying creditors who bailed the country out during the eurozone crisis. In a last-minute referendum, Greek voters decided to reject a proposed bailout deal that would require the country to implement additional economic and labor reforms. Greece then missed the June 30 deadline payment and became the first developed markets nation to default on an International Monetary Fund program. The country also initiated a banking holiday and capital controls to prevent a collapse of its banking system. We maintain that it is difficult to foresee any winner emerging from the Greek crisis, but we believe that any potential economic and financial contagion will likely be limited.

Investors also anticipated that uneven global economic growth and a strong U.S. dollar would hurt the earnings of American exporters and U.S. multinational companies. The World Bank also played a role in dampening investors' outlook for U.S. exports when it forecasted that the global economy will grow only 3% this year compared to its earlier forecast of 3.4%. Rather than hastily sell equities of exporters, we continued to monitor portfolio holdings while assessing if each individual company could take actions, such as cutting expenses, to help offset the impact of a strong U.S. dollar and a potential decline in exports. We believe that investors have overreacted to strong U.S. currency and export concerns. As noted previously, first-quarter growth in S&P 500 ex-energy earnings was 7.59% and consensus estimates point to substantial earnings growth for this year.

Weak economic growth abroad, of course, is challenging for U.S. exporters. While the eurozone economy is showing signs of improving, its growth is expected to limp along at 1.5% for 2015, according to the International Monetary Fund. Russia's economy, meanwhile, is struggling with declining revenues from energy exports and sanctions that seek to punish the country for its annexation of the Crimea section of Ukraine, and the World Bank expects Russia's economy to contract 3.8% this year. In the Pacific, the Bank of Japan has lowered its forecasted annual GDP rate to 2.0% from 2.1%, and in China, a housing slump and weakening growth of exports is causing economic growth to moderate. After having grown 7.4% in 2014, the country's economy is estimated to have grown only 7% in the first quarter.

We believe a variety of trends are likely to support economic growth abroad. A strong U.S. dollar, while being a headwind in the near term for American exporters, is likely to stimulate global growth. A strong dollar makes U.S. goods more expensive in the global marketplace, which gives exporters in countries with weaker currencies a competitive advantage. At the same time, consumers in foreign countries will be more likely to purchase locally manufactured goods. Central banks in many countries, furthermore, are continuing to roll out monetary stimulus. Among other measures, the eurozone is in the midst of a 1 trillion euro, or $1.12 trillion, quantitative easing program that involves purchasing securities to pump cash into the economy and keep interest rates low. The Bank of Japan, for its part, is plowing 80 trillion yen, or the equivalent of $653 billion, annually into the economy with quantitative easing while China is continuing policies that support economic growth. It has published a definitive plan for the One Belt One Road strategy, which among other initiatives seeks to encourage trade by improving infrastructure for global transportation. The People's Bank of China, meanwhile, has continued working on interest rate deregulation and it has lowered policy rates.

From a broader perspective, central banks across emerging markets have generally maintained accommodative policies. We note that emerging markets' earnings growth is expected to hover at 5% in the coming months. For next year, earnings growth is expected to rise to approximately 12%. In addition, the price-to-earnings discount of emerging markets to developed markets is approximately 28%. In our opinion, a 10% to 12% discount is more appropriate.

Reasons for Optimism

We believe that a strengthening U.S. economy will continue to provide fertile ground for corporations to grow earnings and that merger and acquisition activity, shareholder activism, and strong corporate fundamentals are likely to support equities during the foreseeable future. U.S. corporate cash levels of nonfinancial companies totaled $1.73 trillion at the end of 2014, a 117% increase from 2007, according to Moody's Corporation and MarketWatch. With large cash balances, corporations are completing mergers and acquisitions at a rapid pace. After declining to $79.5 billion as of January, deal volume climbed to $261 billion in May, which was a 15-year high, according to FactSet Research Systems. In addition to supporting valuations, mergers and acquisitions can potentially help companies grow their earnings by expanding the lineup of products and services that can be distributed with existing sales networks.

We also believe that shareholder activism is a significant factor that will continue to support equity valuations. Activists force companies to be efficient with operations and capital, which puts executives under increased pressure to perform and make decisions that benefit shareholders. We maintain that activists are likely to increase their efforts—at the end of 2014, activist funds had about $120 billion in assets, up 269% over the past five years, according to Corporate Compliance Insights.

At the same time, businesses are supporting their stock valuations by boosting dividends and buying back stock. In the first quarter, dividend net increases (or dividend increases minus decreases) increased $12.6 billion, according to S&P Dow Jones Indices. The growth rate trailed the $17.9 billion increase during the first quarter of 2014, but S&P Dow Jones Indices still expects dividend payments to set a new record this year. Stock buybacks are also continuing at a record pace. In May, U.S. companies announced $71.2 billion in authorized stock buybacks, which is a 113% year-over-year increase, according to Birinyi Associates. With $463 billion in authorized buybacks announced during the first five months of 2015, the year is off to the strongest start ever recorded.

Going Forward

We believe that equities are likely to generate attractive returns, although market volatility will continue. We maintain that investment managers who use research-driven strategies can potentially find leading businesses that are well prepared to benefit from large-scale global trends, such as the rising value of the U.S. dollar, rapidly declining oil prices, quantitative easing abroad, and other forms of monetary stimulus. Research-driven investment managers can also find companies that can potentially benefit from new technologies and other trends including medical breakthroughs, increasing use of the Internet, and growing demand for residential and industrial real estate. With that in mind, we remain committed to using our research-driven investment strategy to find attractive investment opportunities for our clients.

Portfolio Matters

The Alger Balanced Portfolio returned 1.31% for the six-month period ended June 30, 2015. The equity portion of the Portfolio underperformed the 3.96% return of the Russell 1000 Growth Index, and the fixed-income portion outperformed the -0.30% 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 Industrials sectors was the most important contributor to performance, while Information Technology and Consumer Discretionary were among sectors that detracted from results.

Among the most important relative contributors were Blackstone Group LP.; Aetna, Inc.; Avago Technologies Ltd.; and Delphi Automotive PLC. Shares of global pharmaceutical company Eli Lilly & Co. also supported performance. The company offers treatments for diabetes, neurology, and oncology. Its stock performed strongly following an encouraging update from management regarding product regulatory approvals and the size of the company's diabetes drug market.

Conversely, detracting from overall results on a relative basis were Exxon Mobil Corp.; Intel Corp.; Royal Dutch Shell PLC.; and The Procter & Gamble Co. Seagate Technology PLC also detracted from performance. The company is one of the world's largest manufacturers of hard disk drives and has a broad product offering that enables it to target enterprise, desktop, laptop, and consumer electronics opportunities. Demand weakness for personal computers and enterprise equipment has caused negative earnings revisions for Seagate, which has hurt the performance of the company's stock.

Regarding the fixed-income portion of the Portfolio, as of June 30, 2015, 96.58% of assets were in corporate securities and 3.42% were in U.S. Treasuries. At the end of the reporting period, the fixed-income portion of the Portfolio held 16 securities. During the reporting period, the investment grade corporate credit sector produced the highest total return and second best excess return of the main sectors within the BofA Merrill Lynch US Broad Market Index. On a duration-adjusted basis, long corporate bonds continued their underperformance, posting the worst total and excess returns across the curve, despite the Treasury curve breaking its flattening trend that has taken place since November 2013. Most Federal Open Market Committee (FOMC) members have publicly stated that they would like to see the fed funds rate move off of the zero bound later this year. However, policymakers appear to be in no particular hurry to start the tightening process. Before pulling the trigger on rates, we believe the FOMC will need to see hard evidence to support its core thesis that employment growth and inflation will both accelerate over the coming months as several transitory factors dissipate. From our perspective, it will take at least several more months before the Fed can be reasonably confident that its dual mandate is within reach. We maintain our view that holding short-duration, high-quality bonds will position us well when the inevitable rise in interest rates begins.

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.

The following companies represented the stated percentages of Fred Alger Management, Inc. assets under management as of June 30, 2015: Moody's, 0.00%; FactSet Research Systems, 0.00%; Goldman Sachs Group, 0.00%; Anthem, Inc., 0.00%; and Alibaba Group, 0.06%.

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

This report and the financial statements contained herein are submitted for the general information of shareholders of Alger Balanced Portfolio. This report is not authorized for distribution to prospective investors in the Portfolio unless proceeded or accompanied by an effective prospectus for the Portfolio. The Portfolio's stated 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 the 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 Portfolio's 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 the 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 the 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 the Portfolio. Please refer to the Schedule of Investments for the Portfolio which is included in this report for a complete list of Portfolio holdings as of June 30, 2015. Securities mentioned in the Shareholders' Letter, if not found in the Schedule of Investments, may have been held by the Portfolio 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 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 Portfolio's 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. For a more detailed discussion of the risks associated with the 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:

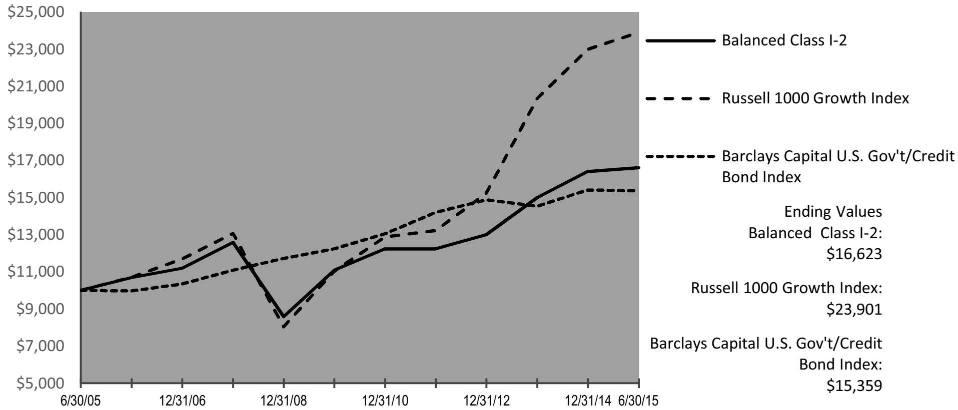
- The Russell 1000 Growth Index is an index designed to measure the performance of the largest 1,000 companies in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values.
- The Barclays Capital U.S. Government/Credit Bond Index is an index designed to track performance of government and corporate bonds.
- The BofA Merrill Lynch US Broad Market Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market, including US Treasury, quasi-government, corporate, securitized and collateralized securities.
- The S&P 500 index is an index generally representative of the U.S. stock market without regard to company size.
- The MSCI ACWI ex USA Index is a market capitalization-weighted index designed to provide a broad measure of equity market performance throughout

the world, including both developed and emerging markets, but excluding the United States.

- The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.
- FactSet Research Systems, Inc. is a multinational financial data and software company.
- Goldman Sachs is a global securities, investment banking, and investment management firm.
- Moody's Corporation provides credit ratings, financial research, tools and analysis.
- Birinyi Associates, Inc. is a money management and research firm.
- MarketWatch operates a financial information website that provides business news, analysis, and stock market data.
- Corporate Compliance Insights is a professionally designed and managed forum dedicated to online discussion and analysis of corporate compliance, risk assessment, ethics, audit, and corporate governance topics.
- S&P Dow Jones Indices provides investable and benchmark indices to the financial markets.

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

— 10 years ended 6/30/15



The chart above illustrates the change in value of a hypothetical $10,000 investment made in Alger Balanced Portfolio Class I-2 shares, and 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, 2015. Figures for each of the Alger Balanced Portfolio Class I-2 shares, and 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 6/30/15

AVERAGE ANNUAL TOTAL RETURNS

	1 YEAR	5 YEARS	10 YEARS	Since 9/5/1989
Class I-2 (Inception 9/5/89)	5.33%	9.08%	5.21%	7.55%
Russell 1000 Growth Index	10.56%	18.59%	9.10%	9.09%
Barclays Capital U.S. Gov't/Credit Bond Index	1.69%	3.52%	4.38%	6.45%

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 plan or retirement plan for which the Portfolio serves as an underlying investment vehicle. If these charges were deducted, the total return figures would be lower. Please refer to the variable insurance product or retirement plan disclosure documents for any additional applicable expenses. Investing in the stock market involves gains and losses and may not be suitable for all investors.

PORTFOLIO SUMMARY†
June 30, 2015 (Unaudited)

SECTORS/SECURITY TYPES	Alger Balanced Portfolio
Consumer Discretionary	9.5%
Consumer Staples	7.3
Energy	4.9
Financials	12.3
Health Care	9.7
Industrials	7.4
Information Technology	12.0
Materials	0.9
Telecommunication Services	2.2
Utilities	0.8
Total Equity Securities	67.0
Corporate Bonds	29.7
U.S. Government & Agency Obligations (excluding Mortgage Backed)	1.0
Total Debt Securities	30.7
Short-Term Investments and Net Other Assets	2.3
	100.0%

† *Based on net assets for the Portfolio.*

COMMON STOCKS—62.7%	SHARES	VALUE
AEROSPACE & DEFENSE—3.2%		
General Dynamics Corp.	4,500	$ 637,605
Honeywell International, Inc.	12,100	1,233,837
The Boeing Co.	7,500	1,040,400
		2,911,842
AIR FREIGHT & LOGISTICS—0.5%		
United Parcel Service, Inc., Cl. B	4,800	**465,168**
AIRPORT SERVICES—0.6%		
Macquarie Infrastructure Corp	6,200	**512,306**
APPAREL RETAIL—0.7%		
L Brands, Inc.	7,100	**608,683**
ASSET MANAGEMENT & CUSTODY BANKS—1.2%		
Ameriprise Financial, Inc.	2,500	312,325
BlackRock, Inc.	2,400	830,352
		1,142,677
AUTO PARTS & EQUIPMENT—1.3%		
Delphi Automotive PLC.	10,400	884,936
Johnson Controls, Inc.	6,000	297,180
		1,182,116
AUTOMOBILE MANUFACTURERS—0.3%		
General Motors Co.	9,400	**313,302**
BIOTECHNOLOGY—0.7%		
Gilead Sciences, Inc.	5,800	**679,064**
BREWERS—0.3%		
Molson Coors Brewing Co., Cl. B	4,200	**293,202**
CABLE & SATELLITE—1.1%		
Comcast Corporation, Cl. A	16,803	**1,010,532**
CASINOS & GAMING—0.4%		
Las Vegas Sands Corp.	6,100	**320,677**
COMMUNICATIONS EQUIPMENT—1.3%		
Cisco Systems, Inc.	25,700	705,722
QUALCOMM, Inc.	7,700	482,251
		1,187,973
CONSUMER ELECTRONICS—0.3%		
Garmin Ltd.	6,900	**303,117**
CONSUMER FINANCE—0.5%		
Discover Financial Services	7,500	**432,150**
DATA PROCESSING & OUTSOURCED SERVICES—0.4%		
Xerox Corp.	37,000	**393,680**
DIVERSIFIED BANKS—3.4%		
JPMorgan Chase & Co.	24,700	1,673,672
Wells Fargo & Co.	25,500	1,434,120
		3,107,792
DIVERSIFIED CHEMICALS—0.6%		
The Dow Chemical Co.	10,100	**516,817**
DRUG RETAIL—1.5%		
CVS Caremark Corp.	9,600	1,006,848
Walgreens Boots Alliance, Inc.	3,900	329,316
		1,336,164

COMMON STOCKS—(CONT.)	SHARES	VALUE
FERTILIZERS & AGRICULTURAL CHEMICALS—0.3%		
Potash Corporation of Saskatchewan, Inc.	8,600	$ **266,342**
GENERAL MERCHANDISE STORES—0.7%		
Target Corp.	8,300	**677,529**
HEALTH CARE EQUIPMENT—0.9%		
Becton Dickinson and Co.	3,300	467,445
St. Jude Medical, Inc.	5,000	365,350
		832,795
HOME IMPROVEMENT RETAIL—1.4%		
The Home Depot, Inc.	11,300	**1,255,769**
HOTELS RESORTS & CRUISE LINES—0.7%		
Royal Caribbean Cruises Ltd.	8,700	**684,603**
HOUSEHOLD PRODUCTS—1.0%		
The Procter & Gamble Co.	11,600	**907,584**
HYPERMARKETS & SUPER CENTERS—0.7%		
Wal-Mart Stores, Inc.	9,200	**652,556**
INDUSTRIAL CONGLOMERATES—1.5%		
General Electric Co.	52,500	**1,394,925**
INTEGRATED OIL & GAS—2.7%		
Exxon Mobil Corp.	20,500	1,705,600
Royal Dutch Shell PLC.#	13,200	752,532
		2,458,132
INTEGRATED TELECOMMUNICATION SERVICES—2.2%		
AT&T, Inc.	19,900	706,848
Verizon Communications, Inc.	28,708	1,338,080
		2,044,928
INTERNET SOFTWARE & SERVICES—2.1%		
Facebook, Inc., Cl. A*	6,200	531,743
Google, Inc., Cl. A*	1,300	702,052
Google, Inc., Cl. C*	1,303	678,225
		1,912,020
INVESTMENT BANKING & BROKERAGE—1.8%		
Morgan Stanley	30,900	1,198,611
TD Ameritrade Holding Corp.	10,900	401,338
Virtu Financial, Inc., Cl. A*	700	16,436
		1,616,385
LEISURE FACILITIES—0.4%		
Six Flags Entertainment Corp.	8,300	**372,255**
MANAGED HEALTH CARE—1.5%		
Aetna, Inc.	6,000	764,760
UnitedHealth Group, Inc.	5,100	622,200
		1,386,960
MOVIES & ENTERTAINMENT—0.8%		
The Walt Disney Co.	6,500	**741,910**
MULTI-LINE INSURANCE—0.5%		
Hartford Financial Services Group, Inc.	10,400	**432,328**
MULTI-UTILITIES—0.4%		
Sempra Energy	4,100	**405,654**

COMMON STOCKS—(CONT.)	SHARES	VALUE
OIL & GAS EQUIPMENT & SERVICES—0.5%		
Halliburton Company	11,700	$ **503,919**
OIL & GAS EXPLORATION & PRODUCTION—0.8%		
ConocoPhillips	12,600	**773,766**
OIL, GAS & CONSUMABLE FUELS—0.4%		
The Williams Cos., Inc.	6,300	**361,557**
OTHER DIVERSIFIED FINANCIAL SERVICES—0.8%		
Bank of America Corp.	40,800	**694,416**
PACKAGED FOODS & MEATS—0.5%		
Kraft Foods Group, Inc.	5,500	**468,270**
PHARMACEUTICALS—6.1%		
Bristol-Myers Squibb Co.	16,500	1,097,910
Eli Lilly & Co.	12,700	1,060,323
GlaxoSmithKline PLC.#	10,500	437,325
Johnson & Johnson	13,100	1,276,726
Pfizer, Inc.	35,789	1,200,005
Roche Holding AG#	14,800	519,036
		5,591,325
RAILROADS—0.9%		
CSX Corp.	25,500	**832,575**
RENEWABLE ELECTRICITY—0.4%		
TerraForm Power, Inc., Cl. A	8,800	**334,224**
RESTAURANTS—1.4%		
Darden Restaurants, Inc.	6,800	483,344
McDonald's Corp.	8,900	846,123
		1,329,467
SECURITY & ALARM SERVICES—0.7%		
Tyco International PLC.	16,400	**631,072**
SEMICONDUCTOR EQUIPMENT—0.4%		
Kla-Tencor Corp.	6,200	**348,502**
SEMICONDUCTORS—1.9%		
Avago Technologies Ltd.	6,600	877,338
Intel Corp.	29,500	897,242
		1,774,580
SOFT DRINKS—2.0%		
PepsiCo, Inc.	12,200	1,138,748
The Coca-Cola Co.	18,900	741,447
		1,880,195
SPECIALIZED FINANCE—0.8%		
CME Group, Inc.	8,000	**744,480**
SYSTEMS SOFTWARE—1.8%		
Microsoft Corp.	37,600	**1,660,040**
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—4.1%		
Apple, Inc.	25,800	3,235,965
Seagate Technology PLC.	11,600	551,000
		3,786,965

COMMON STOCKS—(CONT.)	SHARES	VALUE
TOBACCO—1.3%		
Altria Group, Inc.	24,100	$ **1,178,731**
TOTAL COMMON STOCKS		
(Cost $44,876,454)		**57,654,021**

CONVERTIBLE PREFERRED STOCKS—0.5%	SHARES	VALUE
PHARMACEUTICALS—0.5%		
Allergan PLC., 5.50%	470	**490,013**
(Cost $470,000)		**490,013**

MASTER LIMITED PARTNERSHIP—1.8%	SHARES	VALUE
ASSET MANAGEMENT & CUSTODY BANKS—1.3%		
The Blackstone Group LP.	30,000	**1,226,100**
OIL & GAS STORAGE & TRANSPORTATION—0.5%		
Cheniere Energy Partners LP.	14,700	**453,495**
TOTAL MASTER LIMITED PARTNERSHIP		
(Cost $1,174,542)		**1,679,595**

REAL ESTATE INVESTMENT TRUST—2.0%	SHARES	VALUE
HEALTH CARE—0.7%		
Health Care REIT, Inc.	8,900	**584,107**
MORTGAGE—0.4%		
Blackstone Mortgage Trust, Inc., Cl. A	13,400	**372,788**
SPECIALIZED—0.9%		
Crown Castle International Corp.	5,100	409,530
Lamar Advertising Co.	7,800	448,344
		857,874
TOTAL REAL ESTATE INVESTMENT TRUST		
(Cost $1,782,744)		**1,814,769**

CORPORATE BONDS—29.7%	PRINCIPAL AMOUNT	VALUE
AGRICULTURAL PRODUCTS—1.3%		
Cargill, Inc., 7.35%, 3/6/2019[(a)]	1,000,000	**1,188,660**
COMMUNICATIONS EQUIPMENT—1.4%		
Cisco Systems, Inc., 3.63%, 3/4/2024	1,250,000	**1,291,166**
COMPUTER HARDWARE—4.2%		
Dell, Inc., 3.10%, 4/1/2016	1,750,000	1,754,375
Hewlett-Packard Co., 4.38%, 9/15/2021	2,000,000	2,079,434
		3,833,809
CONSTRUCTION & FARM MACHINERY & HEAVY TRUCKS—1.9%		
John Deere Capital Corp., 2.75%, 3/15/2022	1,750,000	**1,735,828**
DIVERSIFIED BANKS—2.1%		
Wells Fargo & Co., 3.30%, 9/9/2024	2,000,000	**1,971,640**
HEALTH CARE EQUIPMENT—2.2%		
Baxter International, Inc., 3.20%, 6/15/2023	2,000,000	**2,049,950**
INDUSTRIAL CONGLOMERATES—2.5%		
General Electric Capital Corp., 6.00%, 8/7/2019	2,000,000	**2,287,438**
INTEGRATED OIL & GAS—2.4%		
Total Capital SA, 4.45%, 6/24/2020	2,000,000	**2,199,570**

CORPORATE BONDS—(CONT.)	PRINCIPAL AMOUNT	VALUE
INTEGRATED TELECOMMUNICATION SERVICES—1.6%		
Verizon Communications, Inc., 5.15%, 9/15/2023	1,300,000	$ **1,425,692**
INVESTMENT BANKING & BROKERAGE—1.9%		
The Goldman Sachs Group, Inc., 5.75%, 1/24/2022	1,500,000	**1,707,620**
IT CONSULTING & OTHER SERVICES—2.1%		
International Business Machines Corp., 7.00%, 10/30/2025	1,525,000	**1,970,491**
OTHER DIVERSIFIED FINANCIAL SERVICES—2.3%		
JPMorgan Chase & Co., 4.35%, 8/15/2021	2,000,000	**2,142,508**
PACKAGED FOODS & MEATS—2.1%		
Campbell Soup Co., 2.50%, 8/2/2022	2,000,000	**1,906,310**
SEMICONDUCTORS—1.7%		
Altera Corp., 4.10%, 11/15/2023	1,500,000	**1,580,649**
TOTAL CORPORATE BONDS		
(Cost $27,334,731)		**27,291,331**

U.S. TREASURY OBLIGATIONS—1.0%	PRINCIPAL AMOUNT	VALUE
4.50%, 2/15/16	940,000	965,372
(Cost $955,049)		**965,372**
Total Investments		
(Cost $76,593,520)(b)	97.7%	**89,895,101**
Other Assets in Excess of Liabilities	2.3%	**2,112,837**
NET ASSETS	100.0%	$ **92,007,938**

\# *American Depositary Receipts.*
* *Non-income producing security.*
(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 however deemed to be liquid and represent 1.3% of the net assets of the Portfolio.*
(b) *At June 30, 2015, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $76,593,520, amounted to $13,301,581 which consisted of aggregate gross unrealized appreciation of $14,225,087 and aggregate gross unrealized depreciation of $923,506.*

See Notes to Financial Statements

ALGER BALANCED PORTFOLIO
Statement of Assets and Liabilities June 30, 2015 (Unaudited)

		Alger Balanced Portfolio
ASSETS:		
Investments in securities, at value (Identified cost below)* see accompanying schedule of investments	$	89,895,101
Cash and cash equivalents		2,052,736
Receivable for shares of beneficial interest sold		24,346
Dividends and interest receivable		383,172
Prepaid expenses		12,161
Total Assets		92,367,516
LIABILITIES:		
Payable for investment securities purchased		76,687
Payable for shares of beneficial interest redeemed		167,088
Accrued investment advisory fees		58,206
Accrued transfer agent fees		4,527
Accrued administrative fees		2,254
Accrued shareholder administrative fees		820
Accrued other expenses		49,996
Total Liabilities		359,578
NET ASSETS	**$**	**92,007,938**
NET ASSETS CONSIST OF:		
Paid in capital (par value of $.001 per share)		86,438,171
Undistributed net investment income		2,200,523
Undistributed net realized gain (accumulated realized loss)		(9,932,337)
Net unrealized appreciation on investments		13,301,581
NET ASSETS	**$**	**92,007,938**
* Identified cost	$	76,593,520

See Notes to Financial Statements.

		Alger Balanced Portfolio
NET ASSETS BY CLASS:		
Class I-2	$	92,007,938
SHARES OF BENEFICIAL INTEREST OUTSTANDING — NOTE 6:		
Class I-2		6,272,199
NET ASSET VALUE PER SHARE:		
Class I-2 — Net Asset Value Per Share z	$	14.67

See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Statement of Operations for the six months ended June 30, 2015 (Unaudited)

		Alger Balanced Portfolio
INCOME:		
Dividends (net of foreign withholding taxes*)	$	886,448
Interest		419,695
Total Income		1,306,143
EXPENSES:		
Advisory fees — Note 3(a)		336,996
Shareholder administrative fees — Note 3(f)		4,746
Administration fees — Note 3(b)		13,053
Custodian fees		12,566
Transfer agent fees and expenses — Note 3(f)		10,765
Printing fees		12,575
Professional fees		19,856
Registration fees		6,489
Trustee fees — Note 3(g)		1,678
Fund accounting fees		5,070
Miscellaneous		7,019
Total Expenses		430,813
NET INVESTMENT INCOME		875,330
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OPTIONS AND FOREIGN CURRENCY:		
Net realized gain on investments and purchased options		1,644,718
Net change in unrealized (depreciation) on investments, options and foreign currency		(1,175,200)
Net realized and unrealized gain on investments, options, and foreign currency		469,518
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**1,344,848**
* Foreign withholding taxes	$	7,725

See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Statements of Changes in Net Assets (Unaudited)

	Alger Balanced Portfolio	
	For the Six Months Ended June 30, 2015	For the Year Ended December 31, 2014
Net investment income	$ 875,330	$ 1,988,958
Net realized gain on investments, options and foreign currency	1,644,718	1,872,668
Net change in unrealized appreciation (depreciation) on investments, options and foreign currency	(1,175,200)	4,670,548
Net increase in net assets resulting from operations	1,344,848	8,532,174
Dividends and distributions to shareholders from:		
Net investment income:		
Class I-2	—	(1,846,710)
Total dividends and distributions to shareholders	—	(1,846,710)
Decrease from shares of beneficial interest transactions:		
Class I-2	(5,899,777)	(5,699,198)
Net decrease from shares of beneficial interest transactions — Note 6	(5,899,777)	(5,699,198)
Total increase (decrease)	(4,554,929)	986,266
Net Assets:		
Beginning of period	96,562,867	95,576,601
END OF PERIOD	**$ 92,007,938**	**$ 96,562,867**
Undistributed net investment income	$ 2,200,523	$ 1,325,193

See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Financial Highlights for a share outstanding throughout the period (Unaudited)

Alger Balanced Portfolio	Class I-2					
	Six months ended 6/30/2015[i]	Year ended 12/31/2014	Year ended 12/31/2013	Year ended 12/31/2012	Year ended 12/31/2011	Year ended 12/31/2010
Net asset value, beginning of period	$ 14.48	$ 13.49	$ 11.84	$ 11.31	$ 11.61	$ 10.79
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income[ii]	0.13	0.29	0.20	0.13	0.14	0.28
Net realized and unrealized gain (loss) on investments	0.06	0.98	1.61	0.56	(0.12)	0.82
Total from investment operations	0.19	1.27	1.81	0.69	0.02	1.10
Dividends from net investment income	–	(0.28)	(0.16)	(0.16)	(0.32)	(0.28)
Net asset value, end of period	$ 14.67	$ 14.48	$ 13.49	$ 11.84	$ 11.31	$ 11.61
Total return	1.31%	9.43%	15.28%	6.23%	0.03%	10.33%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000's omitted)	$ 92,008	$ 96,563	$ 95,577	$ 93,129	$ 101,811	$ 119,804
Ratio of gross expenses to average net assets	0.91%	0.92%	0.95%	0.95%	0.93%	0.91%
Ratio of expense reimbursements to average net assets	–	–	–	–	(0.04)%	(0.04)%
Ratio of net expenses to average net assets	0.91%	0.92%	0.95%	0.95%	0.89%	0.87%
Ratio of net investment income to average net assets	1.84%	2.09%	1.56%	1.13%	1.20%	2.60%
Portfolio turnover rate	5.77%	24.89%	71.66%	122.50%	102.79%	69.30%

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 the Financial Accounting Standards Board Accounting Standards Codification 946-Financial Services – Investment Companies. The Fund operates as a series company currently issuing seven series of shares of beneficial interest: the Alger Capital Appreciation Portfolio, Alger Large Cap Growth Portfolio, Alger Mid Cap Growth Portfolio, Alger SMid Cap Growth Portfolio, Alger Small Cap Growth Portfolio, Alger Growth & Income Portfolio, and Alger Balanced Portfolio (collectively the "Portfolios"). These financial statements include only the Alger Balanced Portfolio (the "Portfolio"). The Portfolio's investment objective is current income and long-term capital appreciation which it seeks to achieve through investing in equity and fixed-income securities. Shares of the Portfolio are available to investment vehicles for variable annuity contracts and variable life insurance policies offered by separate accounts of life insurance companies, as well as qualified pension and retirement plans.

The Portfolio offers Class I-2 shares.

NOTE 2 — Significant Accounting Policies:

(a) Investment Valuation: The Portfolio 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 valuation information is readily available are valued at the last quoted 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 quoted sales, such securities are valued at the bid price or, in the absence of a recent bid 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. Debt 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 foreign 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 NYSE 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 Portfolio 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 generally consistent with either the market or income approach to fair value. The market approach considers prices and other relevant information generated by market transactions involving identical or comparable assets to measure fair value. The income approach converts future amounts to a current, or discounted, 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 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 a compilation of observable market information such as spreads for fixed income and preferred securities. Inputs for Level 3 include revenue multiples, earnings before interest, taxes, depreciation and amortization ("EBITDA") multiples, discount rates, and the probabilities of success of certain outcomes. Such unobservable market information may be obtained from a company's financial statements and from industry studies, market data, and market indicators such as benchmarks and indices.

Valuation processes are determined by a Valuation Committee ("Committee") established by the Fund's Board of Trustees ("Board") and comprised of representatives of the 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 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 accompanying Statement of Operations.

(e) Option Contracts: When the 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 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 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 accompanying 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 Portfolio 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 prospectus. 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. There were no securities loaned as of June 30, 2015.

(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 carry forward, are declared and paid annually after the end of the fiscal year in which earned.

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

Portfolio's distributions may be shown in the accompanying financial statements as either from, or in excess of, net investment income, net realized gain on investment transactions or return of capital, depending on the type of book/tax differences that may exist. Capital accounts within the financial statements are adjusted for permanent book/tax differences. Reclassifications result primarily from the difference in tax treatment of net operating losses, passive foreign investment companies, and foreign currency transactions. The reclassifications are done annually at year end and have no impact on the net asset value of the Portfolio and are 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 its taxable income to its shareholders. Provided that the Portfolio maintains such compliance, no federal income tax provision is required.

Financial Accounting Standards Board Accounting Standards Codification 740 – Income Taxes 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 file's income tax returns in the U.S. Federal jurisdiction, as well as the New York State and New York City jurisdictions. The statute of limitations on the Portfolio's tax returns remains open for the tax years 2011-2014 and the intermediary period through June 30, 2015. 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 the Portfolio's operations; expenses which are applicable to all Portfolios are allocated among them based on net assets.

(j) Estimates: These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require using estimates and assumptions that affect the reported amounts therein. 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. Actual results may differ from those estimates

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, 2015, is set forth below under the heading "Actual Rate."

	Tier 1	Tier 2	Actual Rate
Alger Balanced Portfolio[a]	0.710%	0.550%	0.71%

[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 Fund 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, 2015, the Portfolio paid Fred Alger & Company, Incorporated, the fund's distributor (the "Distributor"), $3,525, in connection with securities transactions.

(d) Interfund Loans: The Portfolio, and other funds advised by Alger Management may borrow money from and lend money to each other for temporary or emergency purposes. To the extent permitted under its investment restrictions, the Portfolio may lend uninvested cash in an amount up to 15% of its net assets to other funds. If the Portfolio has borrowed from other funds and has aggregate borrowings from all sources that exceed 10% of the Portfolio's total assets, the Portfolio will secure all of its loans from other funds. The interest rate charged on interfund loans is equal to the average of the overnight time deposit rate and bank loan rate available to the Portfolio. There were no interfund loans outstanding as of June 30, 2015.

During the six months ended June 30, 2015, the Portfolio earned interfund loan interest income of $182 which is included in interest income in the accompanying Statement of Operations.

(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, 2015 through February 28, 2015, the Portfolio paid 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 received an additional annual fee of $24,300 which was paid, pro rata, by all U.S.-registered funds managed by Alger Management. Additionally, each member of the Fund's audit committee received $81 from the Portfolio for each audit committee meeting attended, to a maximum of $324 per annum.

Effective March 1, 2015, each Independent Trustee receives a fee of $25,875 for each meeting attended, to a maximum of $103,500 per annum, paid pro rata by each fund in the Alger Fund Complex, plus travel expenses incurred for attending the meeting. The Independent Trustee appointed as Chairman of the Board of Trustees receives an additional compensation of $24,300 per annum paid pro rata by each fund in the Alger Fund Complex. Additionally, each member of the Audit Committee receives a fee of $2,500 for each meeting attended to a maximum of $10,000 per annum, paid pro rata by each fund in the Alger Fund Complex.

NOTE 4 — Securities Transactions:

Purchases and sales of securities, other than U.S. Government securities purchased options, short sales and short-term securities, for the six months ended June 30, 2015, were as follows:

	PURCHASES	SALES
Alger Balanced Portfolio	$5,994,526	$6,777,457

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 funds advised by Alger Management, as discussed in Note 3(d). For the six months ended June 30, 2015, the Portfolio had no borrowings from its custodian and other funds.

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, 2015 and the year ended December 31, 2014, transactions of shares of beneficial interest were as follows:

	FOR THE SIX MONTHS ENDED JUNE 30, 2015		FOR THE YEAR ENDED DECEMBER 31, 2014	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Balanced Portfolio				
Class I-2:				
Shares sold	301,969	$ 4,453,022	499,342	$ 6,978,317
Dividends reinvested	—	—	127,447	1,846,710
Shares redeemed	(700,562)	(10,352,799)	(1,039,539)	(14,524,225)
Net decrease	**(398,593)**	**$ (5,899,777)**	**(412,750)**	**$ (5,699,198)**

NOTE 7 — Income Tax Information:

At December 31, 2014, 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	$ 11,424,346
Total	11,424,346

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, 2014 the Portfolio utilized $2,192,821 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, 2015, 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	$ 8,799,960	$ 8,799,960	—	—
Consumer Staples	6,716,702	6,716,702	—	—
Energy	4,097,374	4,097,374	—	—
Financials	8,170,228	8,170,228	—	—
Health Care	8,490,144	8,490,144	—	—
Industrials	6,747,888	6,747,888	—	—
Information Technology	11,063,760	11,063,760	—	—
Materials	783,159	783,159	—	—
Telecommunication Services	2,044,928	2,044,928	—	—
Utilities	739,878	739,878	—	—
TOTAL COMMON STOCKS	**$ 57,654,021**	**$ 57,654,021**	**—**	**—**
CONVERTIBLE PREFERRED STOCKS				
Health Care	490,013	490,013	—	—
CORPORATE BONDS				
Consumer Staples	3,094,970	—	3,094,970	—
Energy	2,199,570	—	2,199,570	—
Financials	5,821,768	—	5,821,768	—
Health Care	2,049,950	—	2,049,950	—
Industrials	4,023,266	—	4,023,266	—
Information Technology	8,676,115	—	8,676,115	—
Telecommunication Services	1,425,692	—	1,425,692	—
TOTAL CORPORATE BONDS	**$ 27,291,331**	**—**	**$ 27,291,331**	**—**

Alger Balanced Portfolio	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
MASTER LIMITED PARTNERSHIP				
Energy	453,495	453,495	—	—
Financials	1,226,100	1,226,100	—	—
TOTAL MASTER LIMITED PARTNERSHIP	**$ 1,679,595**	**$ 1,679,595**	**—**	**—**
REAL ESTATE INVESTMENT TRUST				
Financials	1,814,769	1,814,769	—	—
U.S. TREASURY OBLIGATIONS				
U.S. Government & Agency	965,372	—	965,372	—
TOTAL INVESTMENTS IN SECURITIES	**$ 89,895,101**	**$ 61,638,398**	**$ 28,256,703**	**—**

On June 30, 2015 there 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, 2015, such assets are categorized within the disclosure hierarchy as follows:

	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
Cash and Cash equivalents:				
Alger Balanced Portfolio	$ 2,052,736	$ 2,052,736	—	—

NOTE 9 — Derivatives:

Financial Accounting Standards Board Accounting Standards Codification 815 – Derivatives and Hedging 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.

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 and 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, 2015, written equity and index put options were used in accordance with this objective.

The Portfolio's option contracts were not subject to any rights of offset with any counterparty. All of the Portfolio's options were exchange traded which utilize a clearing house that acts as an intermediary between buyer and seller, receiving initial and maintenance margin from both, and guaranteeing performance of the option contract.

There were no open derivative instruments as of June 30, 2015.

NOTE 10 — Subsequent Events:

Management of the Portfolio has evaluated events that have occurred subsequent to June 30, 2015 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, 2015 and ending June 30, 2015.

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, 2015	Ending Account Value June 30, 2015	Expenses Paid During the Six Months Ended June 30, 2015[(a)]	Annualized Expense Ratio For the Six Months Ended June 30, 2015[(b)]
Alger Balanced Portfolio					
Class I-2	Actual	$ 1,000.00	$ 1,013.12	$ 4.54	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. 01/2015 **3/31/15**

FACTS	WHAT DOES ALGER DO WITH YOUR PERSONAL INFORMATION?
Why?	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.
What?	The types of personal information we collect and share depend on the product or service you have with us. This information can include: • Social Security number and • Account balances and • Transaction history and • Purchase history and • Assets When you are no longer our customer, we continue to share your information as described in this notice.
How?	All financial companies need to share personal information to run their everyday business. In the section below, we list the reasons financial companies can share their personal information; the reasons 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 — 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 nonaffiliates to market to you	**No**	**We don't share**
Questions? Call 1-800-342-2186		

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.
How does Alger Collect my personal information?	We collect your personal information, for example, when you: • Open an account or • Make deposits or withdrawals from you account • Give us your contact information or • Provide account information or • Pay us by check.
Why can't I limit all sharing?	Federal law gives you the right to only • sharing for affiliates' everyday business purposes — information about your credit worthiness • 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.
Other important information	

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 its publicly available their respective 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, President or Secretary.

The Board of Trustees periodically reviews a report disclosing the third parties to whom each 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 provide 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 peers or an index (such as P/E ratio, alpha, beta, capture ratio, standard deviation, EPS forecasts, Sharpe ratio, information ratio, R-squared, and market cap analysis), security specific impact on overall portfolio performance, month-end top ten contributors to and detractors from performance, breakdown of High Unit Volume Growth holdings vs. Positive Lifecycle Change holdings, portfolio turnover, and requests of a similar nature. Please contact the Funds at (800) 992-3863 to obtain such information.

THE ALGER PORTFOLIOS

360 Park Avenue South
New York, NY 10010
(800) 992-3863
www.alger.com

Investment Manager

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

Distributor

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

Transfer Agent and Dividend Disbursing Agent

State Street Bank and Trust Company
c/o Boston Financial Data Services, Inc.
P.O. Box 8480
Boston, MA 02266

This report is submitted for the general information of the shareholders of 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 Fund's investment policies, fees and expenses as well as other pertinent information.

ALGER

Inspired by Change, Driven by Growth.

BalancedSAR

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, 2015 (Unaudited)

Table of Contents

ALGER CAPITAL APPRECIATION PORTFOLIO

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.**

Dear Shareholders,

Market Rally Continues as Skeptics Cling to Pessimistic View

Pundits for many years have incorrectly opined that equity markets, both in the United States and abroad, will collapse. Those claims have been frequently repeated even as stocks have continued to generate strong returns. It's puzzling that skeptics and critics on almost any topic seem to be positioned as the smarter or wiser voices in the room. And yet, those who have been skeptical of equity markets have been wrong in meaningful ways, unlike optimists, including Alger. Indeed, the equity rally following the subprime mortgage crisis has continued, with the S&P 500 index generating a 236% return from March 3, 2009, to June 30 of this year. For the six-month reporting period, the index gained 1.23%. International equities also advanced during the reporting period, with the MSCI ACWI ex USA Index gaining 4.35% and the MSCI Emerging Markets Index returning 3.12%.

Market Volatility

In the U.S., investor sentiment was supported by strong corporate fundamentals, merger and acquisition activity, low interest rates, a strengthening labor market, and expectations that consumer spending could increase as low oil and gasoline prices reduce Americans' energy bills. Yet, market volatility continued with the S&P 500 producing 12 daily declines of more than 1% during the reporting period.

Early in the reporting period, the potential for declining oil prices to crimp energy producers' earnings and cause industrial businesses to cut capital expenditures weighed upon investor sentiment. Expectations that the Federal Reserve would raise interest rates also weighed upon investor sentiment. At other times, investors grew concerned that a combination of uneven global economic growth and a strong U.S. dollar could curtail America's exports. Concerns that Greece would fail to make debt payments to creditors who bailed the country out during the eurozone crisis also drove volatility. Rather than react quickly to daily changes in investor sentiment, we remained focused on our research-driven strategy that seeks attractive companies that have strong potential to grow earnings.

Oil Prices Jar Investors

From September 2013 to January 1, 2015, the price of West Texas Intermediate crude (WTI) dropped abruptly from $110.16 to $52.72 a barrel, a result of growing oil production in U.S. shale reserves, a strengthening U.S. dollar, and moderating global energy demand. The price decline continued with WTI hitting a low of $43.39 in mid-March. At times, the price declines caused investors to fear that the adverse impact of cheap oil on energy company profits could expand to other industries and hinder U.S. economic growth.

It appears that those fears were overblown. With 100% of S&P 500 companies having reported results, first-quarter ex-energy earnings per share increased 7.59% year over year, according to FactSet Research Systems. We acknowledge that concerns over weak earnings growth for the second quarter became more prevalent as the reporting period continued. As of May 1, analysts expected second-quarter ex-energy earnings per share to increase 4.5%. The number dropped to only 1.9% by the end of the reporting period. From a longer-term perspective, however, investors are more optimistic, with ex-energy earnings per share expected to grow more than 7% this year, according to an Alger analysis of consensus estimates. Rather than quickly sell energy holdings, we assessed if individual companies could mitigate the impacts of low oil prices on earnings by reducing capital expenditures or cutting other expenses. Broadly speaking, we continued to favor larger companies with diverse product lines, attractive balance sheets, and potential for generating strong free cash flow. The Portfolio's Energy sector weighting changed only minimally during the reporting period.

While we acknowledged that the impact of cheap oil could spread to other industries, we held to our belief that low petroleum costs could create growth opportunities for consumer companies and stimulate the U.S. economy. Indeed, savings at the gasoline pump this year could give U.S. consumers an additional $100 billion to $200 billion in disposable income and also help keep U.S. food costs down by decreasing trucking expenses, according to Goldman Sachs and the Wall Street Journal. Low oil prices are also helping energy-intensive industries, such as airlines, cut fuel expenses. With that in mind, Goldman Sachs estimates that lower energy costs could increase U.S. economic growth by 0.2% to 0.5% this year.

U.S. Economic Growth

A preliminary estimate pegged first-quarter annualized gross domestic product (GDP) growth at 0.2%. It was later revised to a disappointing 0.7% decline and then revised again to a decline of only 0.2%. In comparison, GDP grew 2.2% during the last three months of 2014. The Federal Reserve has maintained that "transitory factors" such as severe winter weather, a strong U.S. dollar, declining oil prices, and labor issues at West Coast ports during the first quarter hurt economic growth. We maintain that the economic recovery is stronger than commonly believed and that a combination of low gasoline prices and a strengthening labor market is likely to support shoppers' willingness to spend, which is significant since consumer spending represents roughly 70% of U.S. GDP. We are encouraged to have seen seasonally adjusted unemployment decline from a Great Recession high of 10% to 5.5% as of May and average first-quarter wages including employee benefits increase 4.9% year over year, according to the Labor Department's Employer Costs for Employee Compensation report.

Federal Reserve Policies

With the Federal Reserve having concluded its asset purchase program, investors have been anticipating when the central bank will increase the Fed Funds rate from the current target range of 0% to 0.25%. Fed officials have emphasized that they will patiently wait for the economy to be strong enough to withstand a rate increase. Despite those comments, investors continued to grow cautious and sold U.S. equities when favorable economic data validated fears that a rate hike was approaching. At Alger, we believe strong companies with healthy balance sheets and potential to grow their earnings may be less susceptible to the adverse impacts of higher interest rates, including increased financing costs. Interest rate increases, furthermore, are likely to be moderate. With low interest rates in many countries and widening spreads between foreign and U.S. bonds, investors abroad who are seeking income-producing securities are likely to turn to America's fixed-income market, which is likely to support bond prices and keep interest rates down.

Global Markets and a Strengthening U.S. Dollar

As the period progressed, investors grew increasingly concerned that Greece would miss a June 30 deadline for paying creditors who bailed the country out during the eurozone crisis. In a last-minute referendum, Greek voters decided to reject a proposed bailout deal that would require the country to implement additional economic and labor reforms. Greece then missed the June 30 deadline payment and became the first developed markets nation to default on an International Monetary Fund program. The country also initiated a banking holiday and capital controls to prevent a collapse of its banking system. We maintain that it is difficult to foresee any winner emerging from the Greek crisis, but we believe that any potential economic and financial contagion will likely be limited.

Investors also anticipated that uneven global economic growth and a strong U.S. dollar would hurt the earnings of American exporters and U.S. multinational companies. The World Bank also played a role in dampening investors' outlook for U.S. exports when it forecasted that the global economy will grow only 3% this year compared to its earlier forecast of 3.4%. Rather than hastily sell equities of exporters, we continued to monitor portfolio holdings while assessing if each individual company could take actions, such as cutting expenses, to help offset the impact of a strong U.S. dollar and a potential decline in exports. We believe that investors have overreacted to strong U.S. currency and export concerns. As noted previously, first-quarter growth in S&P 500 ex-energy earnings was 7.59% and consensus estimates point to substantial earnings growth for this year.

Weak economic growth abroad, of course, is challenging for U.S. exporters. While the eurozone economy is showing signs of improving, its growth is expected to limp along at 1.5% for 2015, according to the International Monetary Fund. Russia's economy, meanwhile, is struggling with declining revenues from energy exports and sanctions that seek to punish the country for its annexation of the Crimea section of Ukraine, and the World Bank expects Russia's economy to contract 3.8% this year. In the Pacific, the Bank of Japan has lowered its forecasted annual GDP rate to 2.0% from 2.1%, and in China, a housing slump and weakening growth of exports is causing economic growth to moderate. After having grown 7.4% in 2014, the country's economy is estimated to have grown only 7% in the first quarter.

We believe a variety of trends are likely to support economic growth abroad. A strong U.S. dollar, while being a headwind in the near term for American exporters, is likely to stimulate global growth. A strong dollar makes U.S. goods more expensive in the global marketplace, which gives exporters in countries with weaker currencies a competitive advantage. At the same time, consumers in foreign countries will be more likely to purchase locally manufactured goods. Central banks in many countries, furthermore, are continuing to roll out monetary stimulus. Among other measures, the eurozone is in the midst of a 1 trillion euro, or $1.12 trillion, quantitative easing program that involves purchasing securities to pump cash into the economy and keep interest rates low. The Bank of Japan, for its part, is plowing 80 trillion yen, or the equivalent of $653 billion, annually into the economy with quantitative easing while China is continuing policies that support economic growth. It has published a definitive plan for the One Belt One Road strategy, which among other initiatives seeks to encourage trade by improving infrastructure for global transportation. The People's Bank of China, meanwhile, has continued working on interest rate deregulation and it has lowered policy rates.

From a broader perspective, central banks across emerging markets have generally maintained accommodative policies. We note that emerging markets' earnings growth is expected to hover at 5% in the coming months. For next year, earnings growth is expected to rise to approximately 12%. In addition, the price-to-earnings discount of emerging markets to developed markets is approximately 28%. In our opinion, a 10% to 12% discount is more appropriate.

Reasons for Optimism

We believe that a strengthening U.S. economy will continue to provide fertile ground for corporations to grow earnings and that merger and acquisition activity, shareholder activism, and strong corporate fundamentals are likely to support equities during the foreseeable future. U.S. corporate cash levels of nonfinancial companies totaled $1.73 trillion at the end of 2014, a 117% increase from 2007, according to Moody's Corporation and MarketWatch. With large cash balances, corporations are completing mergers and acquisitions at a rapid pace. After declining to $79.5 billion as of January, deal volume climbed to $261 billion in May, which was a 15-year high, according to FactSet Research Systems. In addition to supporting valuations, mergers and acquisitions can potentially help companies grow their earnings by expanding the lineup of products and services that can be distributed with existing sales networks.

We also believe that shareholder activism is a significant factor that will continue to support equity valuations. Activists force companies to be efficient with operations and capital, which puts executives under increased pressure to perform and make decisions that benefit shareholders. We maintain that activists are likely to increase their efforts—at the end of 2014, activist funds had about $120 billion in assets, up 269% over the past five years, according to Corporate Compliance Insights.

At the same time, businesses are supporting their stock valuations by boosting dividends and buying back stock. In the first quarter, dividend net increases (or dividend increases minus decreases) increased $12.6 billion, according to S&P Dow Jones Indices. The growth rate trailed the $17.9 billion increase during the first quarter of 2014, but S&P Dow Jones Indices still expects dividend payments to set a new record this year. Stock buybacks are also continuing at a record pace. In May, U.S. companies announced $71.2 billion in authorized stock buybacks, which is a 113% year-over-year increase, according to Birinyi Associates. With $463 billion in authorized buybacks announced during the first five months of 2015, the year is off to the strongest start ever recorded.

Going Forward

We believe that equities are likely to generate attractive returns, although market volatility will continue. We maintain that investment managers who use research-driven strategies can potentially find leading businesses that are well prepared to benefit from large-scale global trends, such as the rising value of the U.S. dollar, rapidly declining oil prices, quantitative easing abroad, and other forms of monetary stimulus. Research-driven investment managers can also find companies that can potentially benefit from new technologies and other trends including medical breakthroughs, increasing use of the Internet, and growing demand for residential and industrial real estate. With that in mind, we remain committed to using our research-driven investment strategy to find attractive investment opportunities for our clients.

Portfolio Matters

The Alger Capital Appreciation Portfolio returned 6.80% for the six-month period ended June 30, 2015, compared to the 3.96% return of its benchmark, the Russell 1000 Growth Index.

During the period, the largest sector weightings were Information Technology and Health Care. 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 Energy and Consumer Staples detracted from results.

Among the most important relative contributors were Allergan PLC.; Blackstone Group LP.; SunEdison, Inc.; and Facebook, Inc., Cl. A. Shares of medical insurer Cigna Corp. also contributed to performance. Cigna stock performed strongly after insurer Anthem, Inc. offered to acquire the company.

Conversely, detracting from overall results on a relative basis were AbbVie, Inc.; Precision Castparts Corp.; Micron Technology, Inc.; and Western Digital Corp. Shares of Yahoo! Inc. also detracted from results. Comments from an Internal Revenue Service official during the later portion of the reporting period caused investors to grow concerned over the potential tax consequences of Yahoo! selling its stake in Chinese online-retailer Alibaba Group.

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.

The following companies represented the stated percentages of Fred Alger Management, Inc. assets under management as of June 30, 2015: Moody's, 0.00%; FactSet Research Systems, 0.00%; Goldman Sachs Group, 0.00%; Anthem, Inc., 0.00%; and Alibaba Group, 0.06%.

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

This report and the financial statements contained herein are submitted for the general information of shareholders of Alger Capital Appreciation Portfolio. This report is not authorized for distribution to prospective investors in the Portfolio unless proceeded or accompanied by an effective prospectus for the Portfolio. The Portfolio's stated 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 the 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 Portfolio's 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 the 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 the 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 the Portfolio. Please refer to the Schedule of Investments for the Portfolio which is included in this report for a complete list of Portfolio holdings as of June 30, 2015. Securities mentioned in the Shareholders' Letter, if not found in the Schedule of Investments, may have been held by the Portfolio 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 participate in leveraging, such as Alger Capital Appreciation Portfolio, are subject to the risk that borrowing money to leverage will exceed the returns for securities purchased or that the securities purchased may actually go down in value; thus, Portfolio net asset values can decrease more quickly than if the Portfolio had not borrowed. For a more detailed discussion of the risks associated with the 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.

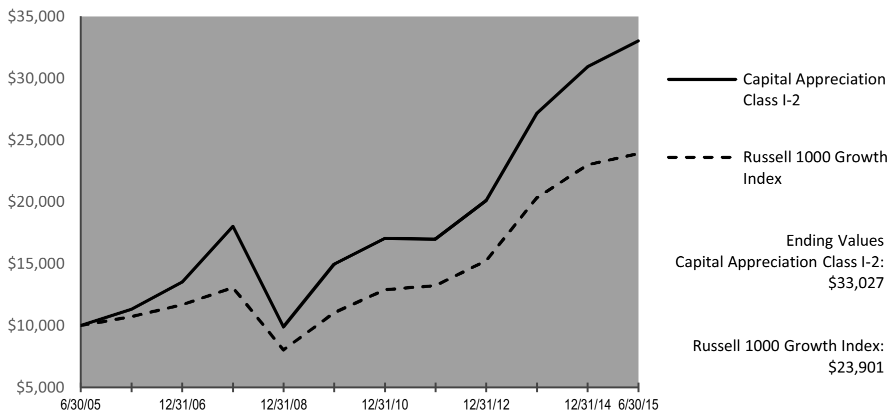
NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.

Definitions:

- The Russell 1000 Growth Index is an 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 S&P 500 index is an index generally representative of the U.S. stock market without regard to company size.
- The MSCI ACWI ex USA Index is a market capitalization-weighted index designed to provide a broad measure of equity market performance throughout the world, including both developed and emerging markets, but excluding the United States.
- The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.
- FactSet Research Systems, Inc. is a multinational financial data and software company.
- Goldman Sachs is a global securities, investment banking, and investment management firm.
- Moody's Corporation provides credit ratings, financial research, tools and analysis.
- Birinyi Associates, Inc. is a money management and research firm.
- MarketWatch operates a financial information website that provides business news, analysis, and stock market data.
- Corporate Compliance Insights is a professionally designed and managed forum dedicated to online discussion and analysis of corporate compliance, risk assessment, ethics, audit, and corporate governance topics.
- S&P Dow Jones Indices provides investable and benchmark indices to the financial markets..

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

— 10 years ended 6/30/15



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, 2015. 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 6/30/15

AVERAGE ANNUAL TOTAL RETURNS

	1 YEAR	5 YEARS	10 YEARS	Since 1/25/1995
Class I-2 (Inception 1/25/95)	14.06%	19.54%	12.69%	13.52%
Class S (Inception 5/1/02)[(i)]	13.75%	19.17%	12.37%	13.25%
Russell 1000 Growth Index	10.56%	18.59%	9.10%	9.00%

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 plan or retirement plan for which the Portfolio serves as an underlying investment vehicle. If these charges were deducted, the total return figures would be lower. Please refer to the variable insurance product or retirement plan disclosure documents for any additional applicable expenses. Investing in the stock market involves gains and losses and may not be suitable for all investors.

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

PORTFOLIO SUMMARY†
June 30, 2015 (Unaudited)

SECTORS/SECURITY TYPES	Alger Capital Appreciation Portfolio
Consumer Discretionary	16.2%
Consumer Staples	6.9
Energy	3.4
Financials	7.8
Health Care	20.6
Industrials	8.3
Information Technology	28.8
Materials	2.2
Telecommunication Services	2.1
Utilities	0.3
Total Equity Securities	96.6
Short-Term Investments and Net Other Assets	3.4
	100.0%

† *Based on net assets for the Portfolio.*

COMMON STOCKS—93.0%	SHARES	VALUE
ADVERTISING—0.0%		
Choicestream, Inc.*,@,(a)	23,166	$ **11,120**
AEROSPACE & DEFENSE—2.7%		
Honeywell International, Inc.	100,739	10,272,356
Lockheed Martin Corp.	11,274	2,095,837
The Boeing Co.	14,952	2,074,141
United Technologies Corp.	12,162	1,349,131
		15,791,465
AIR FREIGHT & LOGISTICS—0.4%		
United Parcel Service, Inc., Cl. B	27,487	**2,663,765**
AIRLINES—0.9%		
United Continental Holdings, Inc.*	104,620	**5,545,906**
ALTERNATIVE CARRIERS—1.0%		
Level 3 Communications, Inc.*	97,050	5,111,623
Zayo Group Holdings, Inc.*	39,308	1,011,002
		6,122,625
APPAREL ACCESSORIES & LUXURY GOODS—0.6%		
PVH Corp.	11,025	1,270,080
Under Armour, Inc., Cl. A*	28,227	2,355,261
		3,625,341
APPLICATION SOFTWARE—2.3%		
Adobe Systems, Inc.*	53,377	4,324,071
Mobileye NV*	20,339	1,081,425
Palantir Technologies, Inc., Cl. A*,@	41,286	293,543
Salesforce.com, inc.*	112,375	7,824,671
		13,523,710
AUTO PARTS & EQUIPMENT—1.5%		
Delphi Automotive PLC.	91,960	7,824,877
WABCO Holdings, Inc.*	8,374	1,036,031
		8,860,908
BIOTECHNOLOGY—6.3%		
Biogen, Inc.*	24,531	9,909,052
BioMarin Pharmaceutical, Inc.*	27,152	3,713,851
Celgene Corp.*	16,211	1,876,180
Gilead Sciences, Inc.	97,028	11,360,038
Incyte Corp.*	23,421	2,440,702
Intercept Pharmaceuticals, Inc.*	13,249	3,198,044
United Therapeutics Corp.*	15,725	2,735,364
Vertex Pharmaceuticals, Inc.*	19,942	2,462,438
		37,695,669
BREWERS—1.6%		
Anheuser-Busch InBev NV#	48,100	5,804,227
Molson Coors Brewing Co., Cl. B	47,186	3,294,055
SABMiller PLC.*	11,400	591,038
		9,689,320
BUILDING PRODUCTS—0.5%		
Fortune Brands Home & Security, Inc.	19,506	893,765
Lennox International, Inc.	18,791	2,023,603
		2,917,368

COMMON STOCKS—(CONT.)	SHARES	VALUE
CABLE & SATELLITE—1.4%		
Comcast Corporation, Cl. A	138,904	**$ 8,353,687**
COMMUNICATIONS EQUIPMENT—0.8%		
Arista Networks, Inc.*	43,154	3,527,408
QUALCOMM, Inc.	22,740	1,424,206
		4,951,614
CONSTRUCTION MATERIALS—0.3%		
Vulcan Materials Co.	23,538	**1,975,544**
DATA PROCESSING & OUTSOURCED SERVICES—3.1%		
Alliance Data Systems Corp.*	15,711	4,586,669
Fiserv, Inc.*	7,272	602,340
Visa, Inc., Cl. A	196,215	13,175,837
		18,364,846
DRUG RETAIL—3.0%		
CVS Caremark Corp.	100,003	10,488,315
Rite Aid Corp.*	238,547	1,991,867
Walgreens Boots Alliance, Inc.	64,844	5,475,427
		17,955,609
FOOD RETAIL—1.0%		
The Kroger Co.	65,937	4,781,092
Whole Foods Market, Inc.	26,628	1,050,208
		5,831,300
FOOTWEAR—0.5%		
NIKE, Inc., Cl. B	28,199	**3,046,056**
GENERAL MERCHANDISE STORES—1.1%		
Dollar General Corp.	33,137	2,576,070
Dollar Tree, Inc.*	53,160	4,199,109
		6,775,179
HEALTH CARE EQUIPMENT—0.9%		
Becton Dickinson and Co.	27,173	3,849,055
Hologic, Inc.*	43,900	1,670,834
		5,519,889
HEALTH CARE FACILITIES—1.2%		
HCA Holdings, Inc.*	77,540	**7,034,429**
HOME ENTERTAINMENT SOFTWARE—0.2%		
Activision Blizzard, Inc.	44,127	**1,068,315**
HOME IMPROVEMENT RETAIL—1.4%		
Lowe's Companies, Inc.	40,633	2,721,192
The Home Depot, Inc.	47,666	5,297,123
		8,018,315
HOTELS RESORTS & CRUISE LINES—1.9%		
Ctrip.com International Ltd.#*	47,805	3,471,599
Hilton Worldwide Holdings, Inc.*	91,789	2,528,787
Royal Caribbean Cruises Ltd.	68,384	5,381,137
		11,381,523
HOUSEWARES & SPECIALTIES—0.5%		
Jarden Corp.*	58,663	**3,035,810**
INDUSTRIAL CONGLOMERATES—1.2%		
Danaher Corp.	64,152	5,490,769

COMMON STOCKS—(CONT.)	SHARES	VALUE
INDUSTRIAL CONGLOMERATES—(CONT.)		
General Electric Co.	68,161	$ 1,811,038
		7,301,807
INDUSTRIAL GASES—0.3%		
Air Products & Chemicals, Inc.	13,083	**1,790,147**
INDUSTRIAL MACHINERY—0.4%		
Ingersoll-Rand PLC.	31,018	**2,091,234**
INTERNET RETAIL—3.5%		
Amazon.com, Inc.*	27,887	12,105,468
NetFlix, Inc.*	3,670	2,410,970
The Priceline Group, Inc.*	478	550,355
TripAdvisor, Inc.*	63,343	5,519,709
		20,586,502
INTERNET SOFTWARE & SERVICES—9.4%		
Demandware, Inc.*	17,998	1,279,298
Facebook, Inc., Cl. A*	334,201	28,662,749
Google, Inc., Cl. C*	31,737	16,519,426
GrubHub, Inc.*	53,306	1,816,135
LinkedIn Corp., Cl. A*	12,280	2,537,416
Yahoo! Inc.*	122,840	4,826,384
		55,641,408
INVESTMENT BANKING & BROKERAGE—1.0%		
E*TRADE Financial Corp.*	73,700	2,207,315
Morgan Stanley	61,936	2,402,498
The Charles Schwab Corp.	34,439	1,124,433
		5,734,246
IT CONSULTING & OTHER SERVICES—0.2%		
Cognizant Technology Solutions Corp., Cl. A*	24,249	**1,481,371**
LIFE SCIENCES TOOLS & SERVICES—1.6%		
Illumina, Inc.*	5,900	1,288,324
Thermo Fisher Scientific, Inc.	61,165	7,936,770
		9,225,094
MANAGED HEALTH CARE—4.0%		
Aetna, Inc.	23,600	3,008,056
Cigna Corp.	61,267	9,925,254
Humana, Inc.	30,259	5,787,942
UnitedHealth Group, Inc.	41,477	5,060,194
		23,781,446
MOVIES & ENTERTAINMENT—1.6%		
The Walt Disney Co.	55,998	6,391,612
Time Warner, Inc.	34,900	3,050,609
		9,442,221
MULTI-LINE INSURANCE—1.5%		
American International Group, Inc.	41,690	2,577,276
Hartford Financial Services Group, Inc.	152,387	6,334,727
		8,912,003
MULTI-UTILITIES—0.3%		
Sempra Energy	16,207	**1,603,521**

COMMON STOCKS—(CONT.)	SHARES	VALUE
OIL & GAS EQUIPMENT & SERVICES—1.4%		
Baker Hughes, Inc.	100,508	$ 6,201,343
Schlumberger Ltd.	9,247	796,999
Weatherford International PLC.*	122,173	1,499,063
		8,497,405
OIL & GAS EXPLORATION & PRODUCTION—1.4%		
Anadarko Petroleum Corp.	59,164	4,618,342
Devon Energy Corp.	63,457	3,775,057
		8,393,399
OIL & GAS STORAGE & TRANSPORTATION—0.3%		
Cheniere Energy, Inc.*	23,824	**1,650,050**
OTHER DIVERSIFIED FINANCIAL SERVICES—1.6%		
Bank of America Corp.	198,509	3,378,623
Citigroup, Inc.	109,942	6,073,196
		9,451,819
PACKAGED FOODS & MEATS—0.3%		
Mead Johnson Nutrition Co., Cl. A	21,924	**1,977,983**
PHARMACEUTICALS—6.5%		
Allergan PLC.*	80,373	24,389,990
Bristol-Myers Squibb Co.	110,251	7,336,101
Mallinckrodt PLC.*	11,994	1,411,934
Mylan NV*	13,117	890,120
Shire PLC.	56,800	4,563,420
		38,591,565
RAILROADS—0.7%		
Union Pacific Corp.	43,410	**4,140,012**
RENEWABLE ENERGY—0.3%		
Terra Form Global LLC, Cl. D*,@,(a)	1,816	**1,824,753**
RESEARCH & CONSULTING SERVICES—0.3%		
CoStar Group, Inc.*	7,516	**1,512,670**
RESTAURANTS—1.6%		
McDonald's Corp.	24,968	2,373,708
Starbucks Corp.	91,115	4,885,131
Yum! Brands, Inc.	21,900	1,972,752
		9,231,591
SECURITY & ALARM SERVICES—0.6%		
Tyco International PLC.	88,543	**3,407,135**
SEMICONDUCTOR EQUIPMENT—1.2%		
SunEdison, Inc.*	233,243	**6,976,298**
SEMICONDUCTORS—2.9%		
Avago Technologies Ltd.	35,972	4,781,758
Broadcom Corp., Cl. A	98,918	5,093,288
NXP Semiconductors NV*	73,854	7,252,463
		17,127,509
SOFT DRINKS—0.6%		
PepsiCo, Inc.	35,401	**3,304,329**
SPECIALIZED FINANCE—0.5%		
McGraw Hill Financial, Inc.	31,155	**3,129,520**

COMMON STOCKS—(CONT.)	SHARES	VALUE
SPECIALTY CHEMICALS—1.6%		
PPG Industries, Inc.	82,694	**$ 9,486,656**
SPECIALTY STORES—0.5%		
Signet Jewelers Ltd.	23,259	**2,982,734**
SYSTEMS SOFTWARE—1.7%		
Microsoft Corp.	120,181	5,305,991
Oracle Corp.	76,054	3,064,976
ServiceNow, Inc.*	22,789	1,693,451
		10,064,418
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—6.8%		
Apple, Inc.	296,219	37,153,268
Western Digital Corp.	44,579	3,495,885
		40,649,153
TOBACCO—0.4%		
Altria Group, Inc.	48,695	**2,381,672**
TRADING COMPANIES & DISTRIBUTORS—0.6%		
HD Supply Holdings, Inc.*	107,997	**3,799,334**
WIRELESS TELECOMMUNICATION SERVICES—1.1%		
SBA Communications Corp., Cl. A*	57,251	**6,582,147**
TOTAL COMMON STOCKS		
(Cost $474,431,859)		**552,512,465**

PREFERRED STOCKS—0.4%	SHARES	VALUE
ADVERTISING—0.1%		
Choicestream, Inc., Cl. A*,@,(a)	199,768	95,889
Choicestream, Inc., Cl. B*,@,(a)	445,303	213,745
		309,634
APPLICATION SOFTWARE—0.2%		
Palantir Technologies, Inc., Cl. B*,@	168,373	1,197,132
Palantir Technologies, Inc., Cl. D*,@	21,936	155,965
		1,353,097
PHARMACEUTICALS—0.1%		
Intarcia Therapeutics, Inc.*,@	20,889	**787,097**
TOTAL PREFERRED STOCKS		
(Cost $2,360,207)		**2,449,828**

MASTER LIMITED PARTNERSHIP—2.6%	SHARES	VALUE
ASSET MANAGEMENT & CUSTODY BANKS—2.6%		
The Blackstone Group LP.	332,864	13,604,152
The Carlyle Group LP.	59,107	1,663,862
		15,268,014
TOTAL MASTER LIMITED PARTNERSHIP		
(Cost $13,123,631)		**15,268,014**

REAL ESTATE INVESTMENT TRUST—0.6%	SHARES	VALUE
MORTGAGE—0.6%		
Blackstone Mortgage Trust, Inc., Cl. A	118,740	**$ 3,303,347**
(Cost $3,563,926)		**3,303,347**
Total Investments		
(Cost $493,479,623)[(b)]	96.6%	**573,533,654**
Other Assets in Excess of Liabilities	3.4%	**20,232,921**
NET ASSETS	100.0%	**$ 593,766,575**

\# *American Depositary Receipts.*

(a) *Deemed an affiliate of the Alger fund complex during the year for purposes of Section 2(a)(3) of the Investment Company Act of 1940. See Affiliated Securities in Notes to Financial Statements.*

(b) *At June 30, 2015, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $493,479,623, amounted to $80,054,031 which consisted of aggregate gross unrealized appreciation of $85,447,459 and aggregate gross unrealized depreciation of $5,393,428.*

* *Non-income producing security.*

@ *Restricted security - Investment in security not registered under the Securities Act of 1933. The investment is deemed to not be liquid and may be sold only to qualified buyers.*

Security	Acquisition Date(s)	Cost	Market Value	% of net assets
Choicestream, Inc.	*3/14/2014*	*$6,718*	*$11,120*	*0.00%*
Choicestream, Inc., Cl. A	*12/17/2013*	*159,751*	*95,889*	*0.02%*
Choicestream, Inc., Cl. B	*7/10/2014*	*267,182*	*213,745*	*0.03%*
Intarcia Therapeutics, Inc.	*3/27/2014*	*676,595*	*787,097*	*0.13%*
Palantir Technologies, Inc., Cl. A	*10/07/2014*	*268,648*	*293,543*	*0.05%*
Palantir Technologies, Inc., Cl. B	*10/07/2014*	*1,111,840*	*1,197,132*	*0.20%*
Palantir Technologies, Inc., Cl. D	*10/14/2014*	*144,839*	*155,965*	*0.03%*
Terra Form Global LLC, Cl. D	*6/8/2015*	*1,816,000*	*1,824,753*	*0.31%*
Total			$4,579,244	0.77%

See Notes to Financial Statements

ALGER CAPITAL APPRECIATION PORTFOLIO
Statement of Assets and Liabilities June 30, 2015 (Unaudited)

		Alger Capital Appreciation Portfolio
ASSETS:		
Investments in securities, at value (Identified cost below)* see accompanying schedule of investments	$	573,212,900
Investments in affiliated securities, at value (Identified cost below)** see accompanying schedule of investments		320,754
Cash and cash equivalents		7,571,090
Receivable for investment securities sold		18,653,803
Receivable for shares of beneficial interest sold		471,362
Dividends and interest receivable		279,471
Prepaid expenses		16,358
Total Assets		600,525,738
LIABILITIES:		
Payable for investment securities purchased		5,338,841
Payable for shares of beneficial interest redeemed		836,989
Accrued investment advisory fees		426,944
Accrued transfer agent fees		18,635
Accrued distribution fees		7,831
Accrued administrative fees		14,495
Accrued shareholder administrative fees		5,271
Accrued other expenses		110,157
Total Liabilities		6,759,163
NET ASSETS	**$**	**593,766,575**
NET ASSETS CONSIST OF:		
Paid in capital (par value of $.001 per share)		471,829,640
Undistributed net investment income		923,828
Undistributed net realized gain		40,959,859
Net unrealized appreciation on investments		80,053,248
NET ASSETS	**$**	**593,766,575**
* Identified cost	$	493,045,972
** Identified cost	$	433,651

See Notes to Financial Statements.

		Alger Capital Appreciation Portfolio
NET ASSETS BY CLASS:		
Class I-2	$	557,764,616
Class S	$	36,001,959
SHARES OF BENEFICIAL INTEREST OUTSTANDING — NOTE 6:		
Class I-2		7,319,411
Class S		488,626
NET ASSET VALUE PER SHARE:		
Class I-2 — Net Asset Value Per Share Class I-2	$	76.20
Class S — Net Asset Value Per Share Class S	$	73.68

See Notes to Financial Statements.

ALGER CAPITAL APPRECIATION PORTFOLIO
Statement of Operations for the six months ended June 30, 2015 (Unaudited)

		Alger Capital Appreciation Portfolio
INCOME:		
Dividends (net of foreign withholding taxes*)	$	3,161,888
Interest		4,120
Total Income		3,166,008
EXPENSES:		
Advisory fees — Note 3(a)		2,295,903
Distribution fees — Note 3(c)		
Class S		39,486
Shareholder administrative fees — Note 3(f)		28,345
Administration fees — Note 3(b)		77,948
Custodian fees		42,352
Transfer agent fees and expenses — Note 3(f)		50,465
Printing fees		45,010
Professional fees		36,714
Registration fees		2,211
Trustee fees — Note 3(g)		10,129
Fund accounting fees		31,867
Miscellaneous		20,329
Total Expenses		2,680,759
NET INVESTMENT INCOME		485,249
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OPTIONS AND FOREIGN CURRENCY:		
Net realized gain on investments and purchased options		33,316,709
Net realized gain on redemption-in-kind		872,265
Net realized (loss) on foreign currency transactions		(6,680)
Net change in unrealized appreciation on investments, options and foreign currency		1,904,544
Net realized and unrealized gain on investments, options, and foreign currency		36,086,838
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**36,572,087**
* Foreign withholding taxes	$	6,885

See Notes to Financial Statements.

ALGER CAPITAL APPRECIATION PORTFOLIO
Statement of Changes in Net Assets (Unaudited)

	Alger Capital Appreciation Portfolio	
	For the Six Months Ended June 30, 2015	For the Year Ended December 31, 2014
Net investment income	$ 485,249	$ 740,022
Net realized gain on investments, options and foreign currency	34,182,294	74,106,536
Net change in unrealized appreciation (depreciation) on investments, options and foreign currency	1,904,544	(11,214,033)
Net increase in net assets resulting from operations	36,572,087	63,632,525
Dividends and distributions to shareholders from:		
Net investment income:		
Class I-2	—	(455,057)
Net realized gains:		
Class I-2	—	(72,756,420)
Class S	—	(4,146,950)
Total dividends and distributions to shareholders	—	(77,358,427)
Increase from shares of beneficial interest transactions:		
Class I-2	24,007,708	47,268,624
Class S	6,076,466	9,352,955
Net increase from shares of beneficial interest transactions — Note 6	30,084,174	56,621,579
Total increase	66,656,261	42,895,677
Net Assets:		
Beginning of period	527,110,314	484,214,637
END OF PERIOD	**$ 593,766,575**	**$ 527,110,314**
Undistributed net investment income	$ 923,828	$ 438,579

See Notes to Financial Statements.

Alger Capital Appreciation Portfolio

	Class I-2					
	Six months ended 6/30/2015[i]	Year ended 12/31/2014	Year ended 12/31/2013	Year ended 12/31/2012	Year ended 12/31/2011	Year ended 12/31/2010
Net asset value, beginning of period	$ 71.35	$ 73.41	$ 60.81	$ 51.96	$ 52.16	$ 45.92
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income[ii]	0.07	0.12	0.24	0.69	0.15	0.08
Net realized and unrealized gain (loss) on investments	4.78	10.04	20.99	8.80	(0.29)	6.34
Total from investment operations	4.85	10.16	21.23	9.49	(0.14)	6.42
Dividends from net investment income	–	(0.08)	(0.27)	(0.62)	(0.06)	(0.18)
Distributions from net realized gains	–	(12.14)	(8.36)	(0.02)	–	–
Net asset value, end of period	$ 76.20	$ 71.35	$ 73.41	$ 60.81	$ 51.96	$ 52.16
Total return	6.80%	13.75%	35.19%	18.30%	(0.30)%	14.03%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000's omitted)	$ 557,765	$ 499,123	$ 464,465	$ 348,152	$ 296,320	$ 284,225
Ratio of gross expenses to average net assets	0.93%	0.94%	0.96%	0.96%	0.97%	0.98%
Ratio of expense reimbursements to average net assets	–	–	–	–	(0.03)%	(0.04)%
Ratio of net expenses to average net assets	0.93%	0.94%	0.96%	0.96%	0.94%	0.94%
Ratio of net investment income to average net assets	0.19%	0.16%	0.34%	1.18%	0.28%	0.17%
Portfolio turnover rate	57.72%[iii]	143.20%[iv]	117.15%	139.19%	156.27%	203.56%

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.*
[iii] *Amount excludes redemption-in-kind of $6,372,879. See note 6 to financial statements.*
[iv] *Amount excludes redemption-in-kind of $3,842,231. See note 6 to financial statements.*

Alger Capital Appreciation Portfolio

	Class S					
	Six months ended 6/30/2015[i]	Year ended 12/31/2014	Year ended 12/31/2013	Year ended 12/31/2012	Year ended 12/31/2011	Year ended 12/31/2010
Net asset value, beginning of period	$ 69.08	$ 71.54	$ 59.46	$ 50.72	$ 51.04	$ 45.01
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income (loss)[ii]	(0.03)	(0.08)	0.03	0.48	(0.04)	(0.08)
Net realized and unrealized gain (loss) on investments	4.63	9.76	20.49	8.60	(0.28)	6.20
Total from investment operations	4.60	9.68	20.52	9.08	(0.32)	6.12
Dividends from net investment income	–	–	(0.08)	(0.32)	–	(0.09)
Distributions from net realized gains	–	(12.14)	(8.36)	(0.02)	–	–
Net asset value, end of period	$ 73.68	$ 69.08	$ 71.54	$ 59.46	$ 50.72	$ 51.04
Total return	6.66%	13.45%	34.79%	17.89%	(0.63)%	13.63%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000's omitted)	$ 36,002	$ 27,987	$ 19,750	$ 13,692	$ 12,038	$ 12,760
Ratio of gross expenses to average net assets	1.20%	1.21%	1.26%	1.30%	1.31%	1.34%
Ratio of expense reimbursements to average net assets	–	–	–	–	(0.03)%	(0.04)%
Ratio of net expenses to average net assets	1.20%	1.21%	1.26%	1.30%	1.28%	1.30%
Ratio of net investment income (loss) to average net assets	(0.08)%	(0.11)%	0.04%	0.83%	(0.07)%	(0.18)%
Portfolio turnover rate	57.72%[iii]	143.20%[iv]	117.15%	139.19%	156.27%	203.56%

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.*
(iii) *Amount excludes redemption-in-kind of $3,842,231. See note 6 to financial statements.*
(iv) *Amount excludes redemption-in-kind of $6,372,879. See note 6 to financial statements.*

NOTE 1 — General:

The Alger Portfolios (the "Fund") is a diversified, open-end registered investment company organized as a business trust under the laws of the Commonwealth of Massachusetts. The Fund qualifies as an investment company as defined in the Financial Accounting Standards Board Accounting Standards Codification 946-Financial Services – Investment Companies. The Fund operates as a series company currently offering seven series of shares of beneficial interest: the Alger Capital Appreciation Portfolio, Alger Large Cap Growth Portfolio, Alger Mid Cap Growth Portfolio, Alger SMid Cap Growth Portfolio, Alger Small Cap Growth Portfolio, Alger Growth & Income Portfolio, and Alger Balanced Portfolio (collectively the "Portfolios"). These financial statements include only the Alger Capital Appreciation Portfolio (the "Portfolio"). The Portfolio invests primarily in equity securities and has an investment objective of long-term capital appreciation. Shares of the Portfolio are available to investment vehicles for variable annuity contracts and variable life insurance policies offered by separate accounts of life insurance companies, as well as qualified pension and retirement plans.

The Portfolio offers Class I-2 shares and Class S shares. Each class has identical rights to assets and earnings except that only Class S shares have a plan of distribution and bear the related expenses.

NOTE 2 — Significant Accounting Policies:

(a) Investment Valuation: The Portfolio values its financial instruments at fair value using independent dealers or pricing services under policies approved by the 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 valuation information is readily available are valued at the last quoted 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 quoted sales, such securities are valued at the bid price or, in the absence of a recent bid 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. Debt 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 foreign 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 NYSE 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 generally consistent with either the market or income approach to fair value. The market approach considers prices and other relevant information generated by market transactions involving identical or comparable assets to measure fair value. The income approach converts future amounts to a current, or discounted, 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 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 a compilation of observable market information such as spreads for fixed income and preferred securities. Inputs for Level 3 include revenue multiples, earnings before interest, taxes, depreciation and amortization ("EBITDA") multiples, discount rates, and the probabilities of success of certain outcomes. Such unobservable market information may be obtained from a company's financial statements and from industry studies, market data, and market indicators such as benchmarks and indices.

Valuation processes are determined by a Valuation Committee ("Committee") established by the Fund's Board of Trustees ("Board") and comprised of representatives of the 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 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 accompanying Statement of Operations.

(e) Option Contracts: When the 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 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 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 accompanying 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 Portfolio 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 prospectus. 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. There were no securities loaned as of June 30, 2015.

(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 share class is treated separately in determining the amounts of dividends from net investment income payable to holders of its shares.

The characterization of distributions to shareholders for financial reporting purposes is determined in accordance with federal income tax rules. Therefore, the source of the Portfolio's distributions may be shown in the accompanying financial statements as either from, or in excess of, net investment income, net realized gain on investment transactions or return of capital, depending on the type of book/tax differences that may exist. Capital accounts within the financial statements are adjusted for permanent book/tax differences. Reclassifications result primarily from the difference in tax treatment of net operating losses, passive foreign investment companies, and foreign currency transactions. The reclassifications are done annually at year end and have no impact on the net asset value of the Portfolio and are 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 its taxable income to its shareholders. Provided that the Portfolio maintains such compliance, no federal income tax provision is required.

Financial Accounting Standards Board Accounting Standards Codification 740 – Income Taxes requires the Portfolio to measure and recognize in its financial statements the benefit of a tax position taken (or expected to be taken) on an income tax return if such position will more likely than not be sustained upon examination based on the technical merits of the position. No tax years are currently under investigation. The Portfolio files income tax returns in the U.S. Federal jurisdiction, as well as the New York State and New York City jurisdictions. The statute of limitations on the Portfolio's tax returns remains open for the tax years 2011-2014 and the intermediary period through June 30, 2015. 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 the Portfolio's operations; expenses which are applicable to all Portfolios are allocated among them based on net assets. Income, realized and unrealized gains and losses, and expenses of the Portfolio are allocated among the Portfolio's classes based on relative net assets, with the exception of distribution fees 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. 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. Actual results may differ from those estimates.

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, 2015, 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 Fund 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 pay Fred Alger & Company, Incorporated, the Fund's distributor (the "Distributor" or "Alger Inc."), a fee at the annual rate of .25% of the respective average daily net assets of the Class S shares of the 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, 2015, the Portfolio paid Alger Inc. $108,042, in connection with securities transactions.

(e) Interfund Loans: The Portfolio and other funds advised by Alger Management may borrow money from and lend money to each other for temporary or emergency purposes. To the extent permitted under its investment restrictions, the Portfolio may lend uninvested cash in an amount up to 15% of its net assets to other funds. If the Portfolio has borrowed from other funds and has aggregate borrowings from all sources that exceed 10% of the Portfolio's total assets, the Portfolio will secure all of its loans from other funds. The interest rate charged on interfund loans is equal to the average of the overnight time deposit rate and bank loan rate available to the Portfolio. There were no interfund loans outstanding as of June 30, 2015.

During the six months ended June 30, 2015, the Portfolio earned interfund loan interest income of $1,138 which is included in interest income in the accompanying Statement of Operations.

(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, 2015 through February 28, 2015, the Portfolio paid 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 received an additional annual fee of $24,300 which was paid, pro rata, by all U.S.-registered funds managed by Alger Management. Additionally, each member of the Fund's audit committee received $81 from the Portfolio for each audit

committee meeting attended, to a maximum of $324 per annum.

Effective March 1, 2015, each Independent Trustee receives a fee of $25,875 for each meeting attended, to a maximum of $103,500 per annum, paid pro rata by each fund in the Alger Fund Complex, plus travel expenses incurred for attending the meeting. The Independent Trustee appointed as Chairman of the Board of Trustees receives an additional compensation of $24,300 per annum paid pro rata by each fund in the Alger Fund Complex. Additionally, each member of the Audit Committee receives a fee of $2,500 for each meeting attended to a maximum of $10,000 per annum, paid pro rata by each fund in the Alger Fund Complex.

(b) 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 securities, purchased options, short sales and short-term securities, for the six months ended June 30, 2015, were as follows:

	PURCHASES	SALES
Alger Capital Appreciation Portfolio	$388,413,014	$357,332,773

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 funds advised by Alger Management, as discussed in Note 3(e). For the six months ended June 30, 2015, the Portfolio had the following borrowings from its custodian and other funds.

	AVERAGE DAILY BORROWING	WEIGHTED AVERAGE INTEREST RATE
Alger Capital Appreciation Portfolio	$ 21,769	2.19%

The highest amount borrowed from its custodian and other funds during the six months ended June 30, 2015 for the Portfolio was as follows:

	HIGHEST BORROWING
Alger Capital Appreciation Portfolio	$ 3,940,171

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, 2015 and the year ended December 31, 2014, transactions of shares of beneficial interest were as follows:

	FOR THE SIX MONTHS ENDED JUNE 30, 2015		FOR THE YEAR ENDED DECEMBER 31, 2014	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Capital Appreciation Portfolio				
Class I-2:				
Shares sold	961,700	$ 71,795,382	940,779	$ 72,613,814
Dividends reinvested	—	—	990,568	70,993,981
Shares redeemed	(638,056)	(47,787,674)	(1,262,854)	(96,339,171)
Net increase	**323,644**	**$ 24,007,708**	**668,493**	**$ 47,268,624**
Class S:				
Shares sold	120,747	$ 8,772,037	134,186	$ 10,066,864
Dividends reinvested	—	—	59,754	4,146,950
Shares redeemed	(37,277)	(2,695,571)	(64,868)	(4,860,859)
Net increase	**83,470**	**$ 6,076,466**	**129,072**	**$ 9,352,955**

During the six months ended June 30, 2015, shares redeemed for the Class I-2 shares of Alger Capital Appreciation Portfolio included redemption-in-kind transactions of 86,523 valued at $6,630,286. The Portfolio had realized gains on these transactions of $872,265 recorded in the accompanying Statement of Operations.

During the year ended December 31, 2014, shares redeemed for the Class I-2 shares of Alger Capital Appreciation Portfolio included redemption-in-kind transactions of 51,493 valued at $4,087,535. The Portfolio had realized gains on these transactions of $659,438 recorded in the accompanying Statement of Operations.

NOTE 7 — Income Tax Information:

At December 31, 2014, the Portfolio, for federal income tax purposes, had no capital loss carryforwards and no capital loss carryforwards were utilized in 2014.

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.

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, 2015, 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	$ 95,350,987	$ 95,339,867	—	$ 11,120
Consumer Staples	41,140,213	40,549,175	591,038	—
Energy	20,365,607	18,540,854	—	1,824,753
Financials	27,227,588	27,227,588	—	—
Health Care	121,848,092	117,284,672	4,563,420	—
Industrials	49,170,696	49,170,696	—	—
Information Technology	169,848,642	169,555,099	—	293,543
Materials	13,252,347	13,252,347	—	—
Telecommunication Services	12,704,772	12,704,772	—	—
Utilities	1,603,521	1,603,521	—	—
TOTAL COMMON STOCKS	**$ 552,512,465**	**$ 545,228,591**	**$ 5,154,458**	**$ 2,129,416**
MASTER LIMITED PARTNERSHIP				
Financials	15,268,014	15,268,014	—	—
PREFERRED STOCKS				
Consumer Discretionary	309,634	—	—	309,634
Health Care	787,097	—	—	787,097
Information Technology	1,353,097	—	—	1,353,097
TOTAL PREFERRED STOCKS	**$ 2,449,828**	**—**	**—**	**$ 2,449,828**
REAL ESTATE INVESTMENT TRUST				
Financials	3,303,347	3,303,347	—	—
TOTAL INVESTMENTS IN SECURITIES	**$ 573,533,654**	**$ 563,799,952**	**$ 5,154,458**	**$ 4,579,244**

	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Alger Capital Appreciation Portfolio	**Common Stocks**
Opening balance at January 1, 2015	$ 267,154
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	46,262
Purchases and sales	–
Purchases	1,816,000
Sales	–
Closing balance at June 30, 2015	2,129,416
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 6/30/2015	$ 46,262

Alger Capital Appreciation Portfolio	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) Preferred Stocks
Opening balance at January 1, 2015	$ 2,569,952
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	(120,124)
Purchases and sales	–
Purchases	–
Sales	–
Closing balance at June 30, 2015	2,449,828
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 6/30/2015	$ (120,124)

The following table provides quantitative information about our Level 3 fair value measurements of our investments as of June 30, 2015. In addition to the techniques and inputs noted in the table below, according to our valuation policy we may also use other valuation techniques and methodologies when determining our fair value measurements. The table below is not intended to be all-inclusive, but rather provides information on the Level 3 inputs as they relate to our fair value measurements.

	Fair Value June 30, 2015	Valuation Methodology	Unobservable Input	Input/ Range
Alger Capital Appreciation Portfolio				
Common Stocks	$ 304,663	Income Approach	Discount Rate	10-40%
Preferred Stocks	2,449,828	Income Approach	Discount Rate	10-40%
Special Purpose Vehicle	1,824,753	Cost Approach	Purchase Price	Cost

The significant unobservable inputs used in the fair value measurement of the Portfolio's securities are revenue and EBITDA multiples, discount rates, and the probabilities of success of certain outcomes. 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, 2015 there 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, 2015, such assets are categorized within the disclosure hierarchy as follows:

	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
Cash and Cash equivalents:				
Alger Capital Appreciation Portfolio	$ 7,571,090	$ 7,571,090	—	—

NOTE 9 — Derivatives:

Financial Accounting Standards Board Accounting Standards Codification 815 – Derivatives and Hedging 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.

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 and 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, 2015, written equity and index put options were used in accordance with this objective.

The Portfolio's option contracts were not subject to any rights of offset with any counterparty. All of the Portfolio's options were exchange traded which utilize a clearing house that acts as an intermediary between buyer and seller, receiving initial and maintenance margin from both, and guaranteeing performance of the option contract.

There were no open derivative instruments as of June 30, 2015.

NOTE 10 — Affiliated Securities:

The issuers of the securities listed below are deemed to be affiliates of the Portfolio because the Portfolio or its affiliates owned 5% or more of the issuer's voting securities during all or part of the six months ended June 30, 2015. Purchase and sale transactions and dividend income earned during the period were as follows:

Security	Shares/Par at December 31, 2014	Purchases/ Conversion	Sales/ Conversion	Shares/Par at June 30, 2015	Dividend Income	Realized Gain (Loss)	Value at June 30, 2015
Alger Capital Appreciation Portfolio							
Common Stocks							
Choicestream, Inc.*	23,166	–	–	23,166	–	–	11,120
Preferred Stocks							
Choicestream, Inc. Class A & Class B*	645,071	–	–	645,071	–	–	309,634

* *Non-income producing security.*

NOTE 11 — Subsequent Events:

Management of the Portfolio has evaluated events that have occurred subsequent to June 30, 2015 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, 2015 and ending June 30, 2015.

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, 2015	Ending Account Value June 30, 2015	Expenses Paid During the Six Months Ended June 30, 2015[(a)]	Annualized Expense Ratio For the Six Months Ended June 30, 2015[(b)]
Alger Capital Appreciation Portfolio					
Class I-2	Actual	$ 1,000.00	$ 1,067.97	$ 4.77	0.93%
	Hypothetical[(c)]	1,000.00	1,020.18	4.66	0.93
Class S	Actual	1,000.00	1,066.59	6.15	1.20
	Hypothetical[(c)]	1,000.00	1,018.84	6.01	1.20

(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. 01/2015 **3/31/15**

FACTS	WHAT DOES ALGER DO WITH YOUR PERSONAL INFORMATION?
Why?	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.
What?	The types of personal information we collect and share depend on the product or service you have with us. This information can include: • Social Security number and • Account balances and • Transaction history and • Purchase history and • Assets • When you are no longer our customer, we continue to share your information as described in this notice.
How?	All financial companies need to share personal information to run their everyday business. In the section below, we list the reasons financial companies can share their personal information; the reasons 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 — 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 nonaffiliates to market to you	**No**	**We don't share**
Questions? Call 1-800-342-2186		

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.
How does Alger Collect my personal information?	We collect your personal information, for example, when you: • Open an account or • Make deposits or withdrawals from you account • Give us your contact information or • Provide account information or • Pay us by check
Why can't I limit all sharing?	Federal law gives you the right to only • sharing for affiliates' everyday business purposes — information about your credit worthiness • 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.
Other important information	

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 its publicly available their respective 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, President or Secretary.

The Board of Trustees periodically reviews a report disclosing the third parties to whom each 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 provide 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 peers or an index (such as P/E ratio, alpha, beta, capture ratio, standard deviation, EPS forecasts, Sharpe ratio, information ratio, R-squared, and market cap analysis), security specific impact on overall portfolio performance, month-end top ten contributors to and detractors from performance, breakdown of High Unit Volume Growth holdings vs. Positive Lifecycle Change holdings, portfolio turnover, and requests of a similar nature. Please contact the Funds at (800) 992-3863 to obtain such information.

THE ALGER PORTFOLIOS

360 Park Avenue South
New York, NY 10010
(800) 992-3863
www.alger.com

Investment Manager

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

Distributor

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

Transfer Agent and Dividend Disbursing Agent

State Street Bank and Trust Company
c/o Boston Financial Data Services, Inc.
P.O. Box 8480
Boston, MA 02266

This report is submitted for the general information of the shareholders of 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.

CapAppSAR

Deutsche Asset
& Wealth Management

June 30, 2015

Semiannual Report

Deutsche Variable Series I

Deutsche 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, credit, liquidity and market risks to varying degrees. 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 foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Emerging markets tend to be more volatile than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. 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

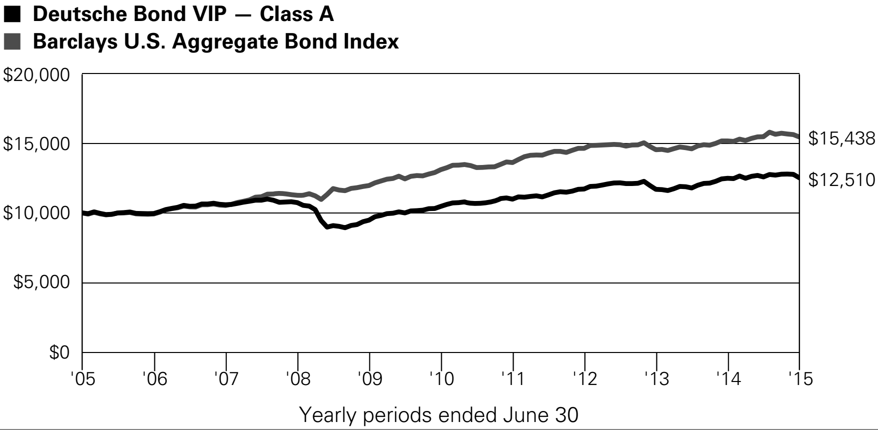
Performance Summary

June 30, 2015 (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, 2015 is 0.69% 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	$9,953	$10,023	$10,691	$11,954	$12,510
	Average annual total return	–0.47%	0.23%	2.25%	3.63%	2.26%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$9,990	$10,186	$10,558	$11,790	$15,438
	Average annual total return	–0.10%	1.86%	1.83%	3.35%	4.44%

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)	**6/30/15**	**12/31/14**
Government & Agency Obligations	35%	31%
Corporate Bonds	26%	31%
Mortgage-Backed Securities Pass-Throughs	24%	18%
Collateralized Mortgage Obligations	9%	6%
Commercial Mortgage-Backed Securities	4%	4%
Municipal Bonds and Notes	3%	4%
Asset-Backed	2%	2%
Cash Equivalents, Securities Lending Collateral and other Assets and Liabilities, net	–3%	4%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	**6/30/15**	**12/31/14**
AAA	59%	53%
AA	3%	7%
A	4%	5%
BBB	14%	17%
BB or Below	15%	17%
Not Rated	5%	1%
	100%	100%

Interest Rate Sensitivity	**6/30/15**	**12/31/14**
Effective Maturity	7.8 years	6.7 years
Effective Duration	3.8 years	4.7 years

The quality ratings represent the higher of Moody's Investors Service, Inc. (“Moody's”) or Standard & Poor's Corporation (“S&P”) credit ratings. The ratings of Moody's and S&P represent their opinions as to the quality of the securities they rate. Credit quality measures a bond issuer's ability to repay interest and principal in a timely manner. Ratings are relative and subjective and are not absolute standards of quality. Credit quality does not remove market risk and is subject to change.

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

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

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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
John D. Ryan
Gary Russell, CFA
Portfolio Managers

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 26.0%		
Consumer Discretionary 1.6%		
AMC Entertainment, Inc., 5.875%, 2/15/2022	15,000	15,225
AmeriGas Finance LLC:		
6.75%, 5/20/2020	15,000	15,787
7.0%, 5/20/2022	10,000	10,600
Apex Tool Group LLC, 144A, 7.0%, 2/1/2021	15,000	13,350
APX Group, Inc., 6.375%, 12/1/2019	15,000	14,550
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	25,000	23,250
Avis Budget Car Rental LLC, 5.5%, 4/1/2023	15,000	14,813
Bed Bath & Beyond, Inc.:		
4.915%, 8/1/2034	130,000	126,877
5.165%, 8/1/2044	150,000	148,913
Cablevision Systems Corp., 5.875%, 9/15/2022	5,000	4,850
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	5,000	4,541
144A, 6.375%, 9/15/2020	55,000	54,629
Clear Channel Worldwide Holdings, Inc.:		
Series A, 6.5%, 11/15/2022	15,000	15,375
Series B, 6.5%, 11/15/2022	25,000	26,031
Series B, 7.625%, 3/15/2020	75,000	78,187
Columbus International, Inc., 144A, 7.375%, 3/30/2021	200,000	215,000
Delphi Corp., 5.0%, 2/15/2023	20,000	21,300
DISH DBS Corp.:		
4.25%, 4/1/2018	15,000	15,262
5.0%, 3/15/2023	20,000	18,500
7.875%, 9/1/2019	90,000	99,810
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	10,000	10,500
Live Nation Entertainment, Inc., 144A, 7.0%, 9/1/2020	20,000	21,250
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	20,000	19,925
Mediacom Broadband LLC:		
5.5%, 4/15/2021	5,000	4,875
6.375%, 4/1/2023	10,000	10,000
MGM Resorts International:		
6.625%, 12/15/2021	40,000	41,800
6.75%, 10/1/2020	42,000	44,520
8.625%, 2/1/2019	60,000	67,800
Numericable-SFR, 144A, 4.875%, 5/15/2019	30,000	29,700
Pinnacle Entertainment, Inc., 6.375%, 8/1/2021	10,000	10,613
Quebecor Media, Inc., 5.75%, 1/15/2023	15,000	14,962
Sirius XM Radio, Inc., 144A, 5.875%, 10/1/2020	10,000	10,250
Springs Industries, Inc., 6.25%, 6/1/2021	10,000	9,775
Starz LLC, 5.0%, 9/15/2019	10,000	10,125
Time Warner Cable, Inc., 7.3%, 7/1/2038	165,000	185,907
Time Warner, Inc.:		
3.6%, 7/15/2025	100,000	97,268
4.85%, 7/15/2045	40,000	38,805
Viking Cruises Ltd., 144A, 8.5%, 10/15/2022	15,000	16,650
		1,581,575
Consumer Staples 1.5%		
Anadolu Efes Biracilik Ve Malt Sanayii AS, 144A, 3.375%, 11/1/2022	250,000	221,430
Cencosud SA, 144A, 5.5%, 1/20/2021	250,000	262,673
Chiquita Brands International, Inc., 7.875%, 2/1/2021	7,000	7,543
HJ Heinz Co.:		
144A, 3.95%, 7/15/2025 (b)	55,000	55,305
144A, 5.2%, 7/15/2045 (b)	20,000	20,496
JBS Investments GmbH:		
144A, 7.25%, 4/3/2024	30,000	31,050
144A, 7.75%, 10/28/2020	200,000	217,500
JBS U.S.A. LLC:		
144A, 7.25%, 6/1/2021	30,000	31,612
144A, 8.25%, 2/1/2020	115,000	121,900
Marfrig Overseas Ltd., 144A, 9.5%, 5/4/2020	200,000	204,340
Minerva Luxembourg SA, 144A, 7.75%, 1/31/2023	250,000	251,875
Post Holdings, Inc., 144A, 6.75%, 12/1/2021	5,000	5,000
Reynolds American, Inc.:		
4.45%, 6/12/2025	30,000	30,565
5.85%, 8/15/2045	20,000	20,978
Roundy's Supermarkets, Inc., 144A, 10.25%, 12/15/2020	5,000	4,250
Smithfield Foods, Inc., 6.625%, 8/15/2022	20,000	21,350
		1,507,867
Energy 4.6%		
Afren PLC, 144A, 10.25%, 4/8/2019*	500,000	220,000
Antero Resources Corp., 5.375%, 11/1/2021	5,000	4,800
Berry Petroleum Co., LLC:		
6.375%, 9/15/2022	15,000	11,700
6.75%, 11/1/2020	25,000	19,750
Chaparral Energy, Inc., 7.625%, 11/15/2022	25,000	18,000
Crestwood Midstream Partners LP, 6.125%, 3/1/2022	10,000	10,200
DCP Midstream LLC, 144A, 9.75%, 3/15/2019	760,000	881,918
Delek & Avner Tamar Bond Ltd., 144A, 5.082%, 12/30/2023	250,000	251,250
Ecopetrol SA, 5.875%, 5/28/2045	250,000	220,625
Endeavor Energy Resources LP, 144A, 7.0%, 8/15/2021	35,000	34,825
GeoPark Latin America Ltd. Agencia en Chile, 144A, 7.5%, 2/11/2020	200,000	173,000
Halcon Resources Corp., 8.875%, 5/15/2021	15,000	9,863
Kinder Morgan, Inc.:		
3.05%, 12/1/2019	220,000	219,756
5.55%, 6/1/2045	160,000	147,886

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

	Principal Amount ($)(a)	Value ($)
Linn Energy LLC, 6.25%, 11/1/2019	45,000	35,213
MEG Energy Corp., 144A, 7.0%, 3/31/2024	30,000	28,763
Murphy Oil U.S.A., Inc., 6.0%, 8/15/2023	20,000	20,750
Noble Holding International Ltd., 4.0%, 3/16/2018	20,000	20,476
Nostrum Oil & Gas Finance BV, 144A, 6.375%, 2/14/2019	200,000	187,500
Odebrecht Offshore Drilling Finance Ltd., 144A, 6.75%, 10/1/2022	229,775	164,864
Offshore Drilling Holding SA, 144A, 8.625%, 9/20/2020	200,000	179,000
ONEOK Partners LP, 4.9%, 3/15/2025 (c)	80,000	79,135
Pacific Rubiales Energy Corp., 144A, 5.375%, 1/26/2019	200,000	164,300
Petrobras Global Finance BV, 6.85%, 6/5/2115	250,000	205,090
Rosneft Finance SA, 144A, 6.625%, 3/20/2017	100,000	103,375
Transocean, Inc., 4.3%, 10/15/2022 (c)	555,000	417,637
Transportadora de Gas Internacional SA ESP, 144A, 5.7%, 3/20/2022	500,000	524,375
Williams Partners LP, 4.0%, 9/15/2025	100,000	93,670
		4,447,721
Financials 8.3%		
Assured Guaranty U.S. Holdings, Inc., 5.0%, 7/1/2024	7,000	6,865
Banco Continental SAECA, 144A, 8.875%, 10/15/2017	200,000	210,400
Banco de Credito del Peru, 144A, 4.25%, 4/1/2023	250,000	249,300
Banco do Brasil SA, 144A, 9.0%, 6/29/2049	200,000	180,440
Barclays Bank PLC, 7.625%, 11/21/2022	890,000	1,013,532
BBVA Bancomer SA, 144A, 6.75%, 9/30/2022	150,000	165,187
CBL & Associates LP, (REIT), 4.6%, 10/15/2024	410,000	403,697
China Overseas Finance Cayman II Ltd., REG S, 5.5%, 11/10/2020	250,000	270,159
CIT Group, Inc., 3.875%, 2/19/2019	65,000	64,513
Corpbanca SA, 144A, 3.875%, 9/22/2019	250,000	253,646
Credit Agricole SA, 144A, 7.875%, 1/29/2049	200,000	205,604
Development Bank of Kazakhstan JSC, Series 3, REG S, 6.5%, 6/3/2020	500,000	520,000
Equinix, Inc., (REIT), 5.375%, 4/1/2023	45,000	45,000
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	170,000	161,273
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022	380,000	395,555
HSBC Holdings PLC:		
5.625%, 12/29/2049	410,000	410,512
6.375%, 12/29/2049	660,000	662,150
International Lease Finance Corp., 6.25%, 5/15/2019	5,000	5,406
Legg Mason, Inc., 5.625%, 1/15/2044	110,000	117,364
Macquarie Group Ltd., 144A, 6.0%, 1/14/2020	825,000	927,015
Massachusetts Mutual Life Insurance Co., 144A, 4.5%, 4/15/2065	30,000	26,642
Morgan Stanley, Series H, 5.45%, 7/29/2049	10,000	9,925
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	220,000	216,019
Navient Corp., 5.5%, 1/25/2023 (c)	630,000	598,500
Neuberger Berman Group LLC, 144A, 5.875%, 3/15/2022	155,000	165,656
Omega Healthcare Investors, Inc., (REIT), 4.95%, 4/1/2024	505,000	516,527
QBE Insurance Group Ltd., 144A, 2.4%, 5/1/2018	260,000	261,439
Societe Generale SA, 144A, 7.875%, 12/29/2049	20,000	20,100
The Goldman Sachs Group, Inc., Series L, 5.7%, 12/31/2049	15,000	15,054
		8,097,480
Health Care 1.0%		
AbbVie, Inc., 3.6%, 5/14/2025	90,000	88,956
Actavis Funding SCS, 4.75%, 3/15/2045	7,000	6,664
Community Health Systems, Inc.:		
5.125%, 8/1/2021	5,000	5,094
6.875%, 2/1/2022 (c)	10,000	10,550
7.125%, 7/15/2020	125,000	132,437
Endo Finance LLC, 144A, 5.75%, 1/15/2022	15,000	15,188
HCA, Inc.:		
6.5%, 2/15/2020	235,000	262,612
7.5%, 2/15/2022	190,000	218,262
IMS Health, Inc., 144A, 6.0%, 11/1/2020	15,000	15,450
LifePoint Health, Inc., 5.5%, 12/1/2021	15,000	15,488
Mallinckrodt International Finance SA, 4.75%, 4/15/2023	110,000	102,644
Par Pharmaceutical Companies, Inc., 7.375%, 10/15/2020	20,000	21,350
Tenet Healthcare Corp., 6.25%, 11/1/2018	60,000	65,175
		959,870
Industrials 1.2%		
ADT Corp.:		
4.125%, 4/15/2019	5,000	5,075
6.25%, 10/15/2021	10,000	10,500
Aerojet Rocketdyne Holdings, Inc., 7.125%, 3/15/2021	35,000	37,275
Artesyn Embedded Technologies, Inc., 144A, 9.75%, 10/15/2020	15,000	14,888
Belden, Inc., 144A, 5.5%, 9/1/2022	25,000	24,812
Bombardier, Inc.:		
144A, 4.75%, 4/15/2019	10,000	9,725
144A, 5.75%, 3/15/2022	90,000	80,100
144A, 6.0%, 10/15/2022	15,000	13,313
Covanta Holding Corp., 5.875%, 3/1/2024	10,000	9,975
CTP Transportation Products LLC, 144A, 8.25%, 12/15/2019	15,000	15,525
DigitalGlobe, Inc., 144A, 5.25%, 2/1/2021	10,000	9,788
Empresas ICA SAB de CV, 144A, 8.875%, 5/29/2024	200,000	149,500

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

	Principal Amount ($)(a)	Value ($)
FTI Consulting, Inc., 6.0%, 11/15/2022	15,000	15,637
Garda World Security Corp., 144A, 7.25%, 11/15/2021	15,000	14,400
Grupo KUO SAB De CV, 144A, 6.25%, 12/4/2022	200,000	208,500
Kenan Advantage Group, Inc., 144A, 8.375%, 12/15/2018	35,000	36,444
Meritor, Inc.:		
6.25%, 2/15/2024	10,000	9,875
6.75%, 6/15/2021	15,000	15,338
Navios Maritime Holdings, Inc., 144A, 7.375%, 1/15/2022	45,000	38,981
Noble Group Ltd., 144A, 6.625%, 8/5/2020	250,000	248,625
Oshkosh Corp., 5.375%, 3/1/2022	8,000	8,180
SBA Communications Corp., 5.625%, 10/1/2019	15,000	15,600
Spirit AeroSystems, Inc., 5.25%, 3/15/2022	15,000	15,487
Titan International, Inc., 6.875%, 10/1/2020 (c)	15,000	13,781
TransDigm, Inc., 7.5%, 7/15/2021	20,000	21,500
United Rentals North America, Inc.:		
6.125%, 6/15/2023	5,000	5,106
7.625%, 4/15/2022	85,000	92,012
		1,139,942
Information Technology 1.4%		
ACI Worldwide, Inc., 144A, 6.375%, 8/15/2020	5,000	5,263
Activision Blizzard, Inc., 144A, 5.625%, 9/15/2021	50,000	52,375
Audatex North America, Inc., 144A, 6.0%, 6/15/2021	10,000	10,275
CyrusOne LP, 6.375%, 11/15/2022	5,000	5,175
Entegris, Inc., 144A, 6.0%, 4/1/2022	10,000	10,275
First Data Corp.:		
144A, 7.375%, 6/15/2019	87,000	90,437
144A, 8.75%, 1/15/2022	30,000	31,894
Freescale Semiconductor, Inc., 144A, 6.0%, 1/15/2022	15,000	15,900
KLA-Tencor Corp., 4.65%, 11/1/2024	395,000	394,784
NCR Corp.:		
5.875%, 12/15/2021	5,000	5,150
6.375%, 12/15/2023	10,000	10,600
Seagate HDD Cayman, 144A, 5.75%, 12/1/2034	340,000	334,771
Tencent Holdings Ltd., 144A, 3.375%, 5/2/2019	400,000	410,688
		1,377,587
Materials 2.9%		
Anglo American Capital PLC:		
144A, 4.125%, 4/15/2021	350,000	350,161
144A, 4.125%, 9/27/2022 (c)	555,000	539,201
ArcelorMittal, 6.125%, 6/1/2018	500,000	532,500
AVINTIV Specialty Materials, Inc., 7.75%, 2/1/2019	35,000	36,050
Berry Plastics Corp., 5.5%, 5/15/2022	25,000	25,094
First Quantum Minerals Ltd., 144A, 7.0%, 2/15/2021	31,000	29,644
Glencore Funding LLC, 144A, 4.125%, 5/30/2023	50,000	48,371
Gold Fields Orogen Holdings BVI Ltd., 144A, 4.875%, 10/7/2020	200,000	183,000

		Principal Amount ($)(a)	Value ($)
Hexion, Inc.:			
6.625%, 4/15/2020		100,000	91,750
8.875%, 2/1/2018		20,000	18,050
Novelis, Inc., 8.75%, 12/15/2020		265,000	280,237
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021		15,000	15,263
Reynolds Group Issuer, Inc., 5.75%, 10/15/2020		325,000	333,125
Yamana Gold, Inc., 4.95%, 7/15/2024		405,000	390,109
			2,872,555
Telecommunication Services 3.1%			
America Movil SAB de CV, 7.125%, 12/9/2024	MXN	2,000,000	123,404
AT&T, Inc.:			
2.45%, 6/30/2020		100,000	98,027
3.4%, 5/15/2025		150,000	143,056
B Communications Ltd., 144A, 7.375%, 2/15/2021		15,000	16,088
Bharti Airtel International Netherlands BV, 144A, 5.125%, 3/11/2023		400,000	417,599
CenturyLink, Inc.:			
Series V, 5.625%, 4/1/2020		5,000	5,006
Series W, 6.75%, 12/1/2023 (c)		10,000	10,031
Digicel Group Ltd., 144A, 8.25%, 9/30/2020		42,000	42,105
Frontier Communications Corp.:			
7.125%, 1/15/2023		110,000	97,625
8.5%, 4/15/2020		55,000	57,503
Hughes Satellite Systems Corp.:			
6.5%, 6/15/2019		13,000	14,105
7.625%, 6/15/2021		50,000	55,010
Intelsat Jackson Holdings SA:			
5.5%, 8/1/2023		30,000	26,565
7.5%, 4/1/2021		270,000	266,962
Level 3 Financing, Inc.:			
6.125%, 1/15/2021		10,000	10,487
7.0%, 6/1/2020		100,000	106,125
Millicom International Cellular SA, 144A, 6.0%, 3/15/2025		200,000	193,000
MTN Mauritius Investments Ltd., 144A, 4.755%, 11/11/2024		250,000	248,125
Sprint Communications, Inc.:			
6.0%, 11/15/2022 (c)		25,000	22,844
144A, 9.0%, 11/15/2018		30,000	33,878
Sprint Corp., 7.125%, 6/15/2024		15,000	13,914
T-Mobile U.S.A., Inc.:			
6.125%, 1/15/2022		5,000	5,163
6.625%, 11/15/2020		175,000	182,000
Turk Telekomunikasyon AS, 144A, 3.75%, 6/19/2019		250,000	249,332
VimpelCom Holdings BV, 144A, 5.95%, 2/13/2023		200,000	176,460
Windstream Services LLC:			
6.375%, 8/1/2023		15,000	12,206
7.75%, 10/15/2020 (c)		325,000	318,094
7.75%, 10/1/2021		40,000	36,600
			2,981,314
Utilities 0.4%			
Lamar Funding Ltd., 144A, 3.958%, 5/7/2025		250,000	243,125
Majapahit Holding BV, REG S, 7.75%, 10/17/2016		100,000	107,125

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

	Principal Amount ($)(a)	Value ($)
NRG Energy, Inc., 6.25%, 5/1/2024	45,000	44,662
		394,912
Total Corporate Bonds (Cost $26,060,644)		**25,360,823**

Mortgage-Backed Securities Pass-Throughs 23.8%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp.:		
3.5%, 12/1/2042 (b)	4,000,000	4,113,750
4.0%, 8/1/2039	656,973	699,163
5.5%, with various maturities from 10/1/2023 until 6/1/2035	1,435,940	1,612,596
6.5%, 3/1/2026	218,197	250,646
Federal National Mortgage Association:		
2.25%**, 9/1/2038	47,281	50,702
4.0%, with various maturities from 4/1/2042 until 10/1/2044 (b)	2,109,404	2,118,749
5.0%, with various maturities from 10/1/2033 until 8/1/2040	1,310,270	1,454,177
5.5%, with various maturities from 12/1/2032 until 8/1/2037	1,431,241	1,611,833
6.0%, with various maturities from 4/1/2024 until 3/1/2025	413,165	468,990
6.5%, with various maturities from 3/1/2017 until 12/1/2037	437,579	501,888
Government National Mortgage Association:		
3.5%, 2/1/2043 (b)	4,500,000	4,670,508
4.0%, 12/1/2040 (b)	5,300,000	5,641,601
Total Mortgage-Backed Securities Pass-Throughs (Cost $22,876,155)		**23,194,603**

Asset-Backed 2.0%

Automobile Receivables 0.5%

	Principal Amount ($)(a)	Value ($)
Avis Budget Rental Car Funding AESOP LLC, "C", Series 2015-1A, 144A, 3.96%, 7/20/2021	500,000	**501,556**

Miscellaneous 1.5%

	Principal Amount ($)(a)	Value ($)
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	309,018	304,487
PennyMac LLC, "A1", Series 2015-NPL1, 144A, 4.0%, 3/25/2055	659,417	658,812
Voya CLO Ltd., "C", Series 2015-1A, 144A, 3.675%**, 4/18/2027	500,000	469,511
		1,432,810
Total Asset-Backed (Cost $1,947,626)		**1,934,366**

Commercial Mortgage-Backed Securities 3.7%

	Principal Amount ($)(a)	Value ($)
Banc of America Merrill Lynch Commercial Mortgage, Inc., "A2", Series 2007-2, 5.634%**, 4/10/2049	10,576	10,601
Commercial Mortgage Trust, "A5A", Series 2005-C6, 5.116%, 6/10/2044	192,296	192,186
Del Coronado Trust, "M", Series 2013-HDMZ, 144A, 5.186%**, 3/15/2018	125,000	125,037
FHLMC Multifamily Structured Pass-Through Certificates, "X1", Series K043, Interest Only, 0.678%**, 12/25/2024	4,996,682	217,616
JPMBB Commercial Mortgage Securities Trust, "A3", Series 2014-C19, 3.669%, 4/15/2047	150,000	156,780
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"A4", Series 2007-C1, 5.716%, 2/15/2051	950,473	1,014,181
"G", Series 2007-LD11, 144A, 5.795%**, 6/15/2049*	415,019	0
LB-UBS Commercial Mortgage Trust, "A4", Series 2007-C6, 5.858%, 7/15/2040	1,205,118	1,269,314
Merrill Lynch Mortgage Trust, "ASB", Series 2007-C1, 6.029%**, 6/12/2050	630,286	632,915
Total Commercial Mortgage-Backed Securities (Cost $4,039,845)		**3,618,630**

Collateralized Mortgage Obligations 9.0%

	Principal Amount ($)(a)	Value ($)
Countrywide Home Loans, "A2", Series 2006-1, 6.0%, 3/25/2036	318,627	299,175
CS First Boston Mortgage Securities Corp., "10A3", Series 2005-10, 6.0%, 11/25/2035	109,160	75,363
Fannie Mae Connecticut Avenue Securities, "1M2", Series 2015-C01, 4.485%**, 2/25/2025	1,000,000	991,202
Federal Home Loan Mortgage Corp.:		
"ZT", Series 4165, 3.0%, 2/15/2043	526,666	500,718
"ZG", Series 4213, 3.5%, 6/15/2043	756,088	733,613
"PI", Series 3940, Interest Only, 4.0%, 2/15/2041	524,634	102,318
"SP", Series 4047, Interest Only, 6.465%***, 12/15/2037	566,608	92,702
"JS", Series 3572, Interest Only, 6.615%***, 9/15/2039	539,310	83,244
Federal National Mortgage Association, "SI", Series 2007-23, Interest Only, 6.583%***, 3/25/2037	223,963	46,442
Freddie Mac Structured Agency Credit Risk Debt Notes:		
"M3", Series 2014-DN2, 3.785%**, 4/25/2024	500,000	483,205
"M3", Series 2014-DN4, 4.735%**, 10/25/2024	240,000	243,026
Government National Mortgage Association:		
"PL", Series 2013-19, 2.5%, 2/20/2043	684,500	610,670
"HX", Series 2012-91, 3.0%, 9/20/2040	381,339	395,045
"KZ", Series 2014-102, 3.5%, 7/16/2044	1,902,193	1,804,436
"GC", Series 2010-101, 4.0%, 8/20/2040	500,000	525,502
"ME", Series 2014-4, 4.0%, 1/16/2044	500,000	535,532
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	690,980	122,212

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

		Principal Amount ($)(a)	Value ($)
"PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039		490,804	98,345
"EI", Series 2011-162, Interest Only, 4.5%, 5/20/2040		1,122,846	113,877
"DI", Series 2011-40, Interest Only, 4.5%, 12/20/2040		2,278,023	155,469
"IM", Series 2010-87, Interest Only, 4.75%, 3/20/2036		219,231	1,447
"PZ", Series 2010-106, 4.75%, 8/20/2040		444,935	493,703
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039		141,718	29,455
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039		278,674	55,071
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039		117,874	24,040
"AI", Series 2007-38, Interest Only, 6.275%***, 6/16/2037		73,133	12,901
MASTR Alternative Loans Trust:			
"5A1", Series 2005-1, 5.5%, 1/25/2020		85,110	88,491
"8A1", Series 2004-3, 7.0%, 4/25/2034		8,519	8,771
Total Collateralized Mortgage Obligations (Cost $8,710,653)			**8,725,975**

Government & Agency Obligations 35.0%

Other Government Related (d) 1.5%

		Principal Amount ($)(a)	Value ($)
Hashemite Kingdom of Jordan Government AID Bond, 3.0%, 6/30/2025		1,100,000	1,102,750
Perusahaan Penerbit SBSN, 144A, 4.325%, 5/28/2025		200,000	194,760
Sberbank of Russia, Series 7, REG S, 5.717%, 6/16/2021		200,000	190,500
			1,488,010

Sovereign Bonds 8.8%

		Principal Amount ($)(a)	Value ($)
Dominican Republic, 144A, 5.5%, 1/27/2025		100,000	100,250
Government of Indonesia, 8.375%, 9/15/2026	IDR	2,680,000,000	201,123
Kingdom of Spain-Inflation Linked Bond, REG S, 144A, 1.0%, 11/30/2030	EUR	1,087,717	1,125,088
Republic of El Salvador:			
144A, 6.375%, 1/18/2027		100,000	96,750
144A, 7.65%, 6/15/2035		100,000	100,500
REG S, 8.25%, 4/10/2032		40,000	43,700
Republic of Hungary:			
4.0%, 3/25/2019		200,000	206,460
Series 19/A, 6.5%, 6/24/2019	HUF	11,600,000	46,927
Republic of Ireland, REG S, 2.0%, 2/18/2045	EUR	600,000	584,274
Republic of New Zealand, Series 0427, REG S, 4.5%, 4/15/2027	NZD	2,200,000	1,613,472
Republic of Poland, Series 0725, 3.25%, 7/25/2025	PLN	560,000	148,546
Republic of Portugal, REG S, 144A, 4.1%, 2/15/2045	EUR	1,300,000	1,502,755
Republic of Singapore, 2.75%, 4/1/2042	SGD	567,000	397,618
Republic of Slovenia, 144A, 5.5%, 10/26/2022		200,000	221,790
Republic of South Africa:			
Series R204, 8.0%, 12/21/2018	ZAR	2,200,000	183,390
Series R186, 10.5%, 12/21/2026	ZAR	7,800,000	746,276
Republic of Sri Lanka, 144A, 5.125%, 4/11/2019		200,000	199,000
Republic of Turkey:			
5.625%, 3/30/2021		250,000	269,475
8.5%, 7/10/2019	TRY	410,000	148,696
Republic of Uruguay, 5.1%, 6/18/2050		50,000	47,625
United Mexican States, 4.6%, 1/23/2046		600,000	555,000
			8,538,715

U.S. Treasury Obligations 24.7%

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Bills:		
0.06%****, 8/13/2015 (e)	623,000	623,000
0.07%****, 12/3/2015 (e)	181,000	180,967
U.S. Treasury Bonds:		
2.5%, 2/15/2045	53,000	46,644
3.0%, 11/15/2044	51,000	49,888
3.125%, 8/15/2044	255,000	255,419
U.S. Treasury Notes:		
1.0%, 8/31/2016 (f) (g)	12,248,000	12,336,039
1.0%, 9/30/2016	1,000,000	1,007,578
1.25%, 1/31/2020	30,000	29,597
1.625%, 4/30/2019	6,640,000	6,714,182
1.625%, 12/31/2019	385,000	386,594
2.125%, 5/15/2025	15,000	14,728
2.25%, 11/15/2024	1,201,000	1,193,681
2.5%, 5/15/2024	1,238,000	1,259,181
		24,097,498
Total Government & Agency Obligations (Cost $34,767,327)		**34,124,223**

Municipal Bonds and Notes 3.1%

	Principal Amount ($)(a)	Value ($)
Gwinnett County, GA, Development Authority Revenue, Gwinnett Stadium Project, 6.4%, 1/1/2028	655,000	716,766
Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018	960,470	990,456
Port Authority New York & New Jersey, One Hundred Fiftieth Series, 4.75%, 9/15/2016	930,000	970,260
Washington, Central Puget Sound Regional Transit Authority, Sales & Use Tax Revenue, Series A, 5.0%, 11/1/2036	285,000	307,159
Total Municipal Bonds and Notes (Cost $2,823,965)		**2,984,641**

	Shares	Value ($)

Preferred Stock 0.0%

Consumer Discretionary

	Shares	Value ($)
Ally Financial, Inc., Series G, 144A, 7.0% (Cost $13,861)	14	**14,217**

Securities Lending Collateral 2.0%

Daily Assets Fund Institutional, 0.16% (h) (i) (Cost $1,914,730)	1,914,730	**1,914,730**

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

	Shares	Value ($)
Cash Equivalents 13.5%		
Central Cash Management Fund, 0.09% (h) (Cost $13,157,181)	13,157,181	**13,157,181**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $116,311,987)†	118.1	**115,029,389**
Other Assets and Liabilities, Net	(18.1)	**(17,606,924)**
Net Assets	100.0	**97,422,465**

The following table represents bonds that are in default:

Security	Coupon	Maturity Date	Principal Amount ($)	Cost ($)	Value ($)
Afren PLC*	10.25%	4/8/2019	500,000	545,588	220,000
JPMorgan Chase Commercial Mortgage Securities Corp.*	5.795%	6/15/2049	415,019	376,792	0
				922,380	**220,000**

* 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, 2015.

*** These securities are shown at their current rate as of June 30, 2015.

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

† The cost for federal income tax purposes was $116,311,307. At June 30, 2015, net unrealized depreciation for all securities based on tax cost was $1,281,918. This consisted of aggregate gross unrealized depreciation for all securities in which there was an excess of value over tax cost of $1,400,371 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,682,289.

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

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

(c) 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, 2015 amounted to $1,832,405, which is 1.9% of net assets.

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

(e) At June 30, 2015, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(f) At June 30, 2015, this security has been pledged, in whole or in part, as collateral for open centrally cleared swap contracts.

(g) At June 30, 2015, this security has been pledged, in whole or in part, as collateral for open over-the-counter derivatives.

(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.

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, 2015, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year Australian Bond	AUD	9/15/2015	24	2,319,492	11,718
10 Year U.S. Treasury Note	USD	9/21/2015	83	10,472,266	(35,896)
Euro-BUXL 30 Year German Government Bond	EUR	9/8/2015	11	1,822,824	(20,947)
Total net unrealized depreciation					**(45,125)**

At June 30, 2015, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year Canadian Government Bond	CAD	9/21/2015	20	2,241,793	(22,349)
Federal Republic of Germany Euro-Bund	EUR	9/8/2015	14	2,372,400	(28,115)
Ultra Long U.S. Treasury Bond	USD	9/21/2015	53	8,165,313	202,557
Total net unrealized appreciation					**152,093**

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

At June 30, 2015, 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 — 4.48% – Pay Floating — 3-Month LIBOR	5/9/2016 5/11/2026	2,000,000[1]	5/5/2016	**22,450**	**(1,330)**
Put Options					
Pay Fixed — 2.48% – Receive Floating — 3-Month LIBOR	5/9/2016 5/11/2026	2,000,000[1]	5/5/2016	22,450	(38,652)
Pay Fixed — 2.615% – Receive Floating — 3-Month LIBOR	12/4/2015 12/4/2045	2,000,000[2]	12/2/2015	43,400	(35,912)
Pay Fixed — 2.64% – Receive Floating — 3-Month LIBOR	8/10/2015 8/10/2045	1,800,000[1]	8/6/2015	16,830	(9,629)
Pay Fixed — 2.675% – Receive Floating — 3-Month LIBOR	11/9/2015 11/12/2045	2,000,000[2]	11/9/2015	40,100	(40,514)
Pay Fixed — 2.88% – Receive Floating — 3-Month LIBOR	9/30/2015 9/30/2045	2,000,000[3]	9/28/2015	41,847	(58,484)
Total Put Options				**164,627**	**(183,191)**
Total				**187,077**	**(184,521)**

(j) Unrealized appreciation on written options on interest rate swap contracts at June 30, 2015 was $2,556.

At June 30, 2015, open interest rate swap contracts were as follows:

Centrally Cleared Swaps

Effective/ Expiration Date	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
12/16/2015 9/17/2035	9,700,000	Floating — 3-Month LIBOR	Fixed — 2.938%	42,538	(174,677)
12/16/2015 9/18/2045	3,600,000	Floating — 3-Month LIBOR	Fixed — 2.998%	11,692	(111,570)
12/16/2015 9/16/2025	500,000	Floating — 3-Month LIBOR	Fixed — 2.64%	2,964	(367)
12/16/2015 9/16/2020	8,900,000	Floating — 3-Month LIBOR	Fixed — 2.214%	102,937	107,265
6/17/2015 6/17/2045	8,995,000	Floating — 3-Month LIBOR	Fixed — 2.5%	(787,210)	(795,298)
12/16/2015 9/18/2017	13,600,000	Fixed — 1.557%	Floating — 3-Month LIBOR	(97,587)	(111,180)
9/16/2015 9/16/2045	1,800,000	Fixed — 3.0%	Floating — 3-Month LIBOR	(18,379)	24,886
9/16/2015 9/16/2045	1,800,000	Floating — 3-Month LIBOR	Fixed — 3.0%	18,379	(16,626)
1/28/2015 1/28/2045	2,000,000	Fixed — 3.087%	Floating — 3-Month LIBOR	(92,837)	(72,662)
9/16/2015 9/16/2020	7,614,000	Fixed — 2.25%	Floating — 3-Month LIBOR	(136,300)	(2,446)
2/3/2015 2/3/2045	1,800,000	Fixed — 3.035%	Floating — 3-Month LIBOR	(62,700)	(40,470)
Total net unrealized depreciation					**(1,193,145)**

At June 30, 2015, open credit default swap contracts sold were as follows:

Centrally Cleared Swap

Effective/ Expiration Dates	Notional Amount ($) (k)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating	Value ($)	Unrealized Depreciation ($)
3/20/2015 6/20/2020	2,475,000	5.0%	Markit Dow Jones CDX North America High Yield Index	159,036	**(14,968)**

(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.

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

Counterparties:
1 Nomura International PLC
2 Citigroup, Inc.
3 Morgan Stanley

LIBOR: London Interbank Offered Rate; 3-Month LIBOR rate at June 30, 2015 is 0.28%.

At June 30, 2015, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
KRW	1,124,675,000	JPY	125,000,000	7/9/2015	13,416	Nomura International PLC
KRW	1,124,687,500	JPY	125,000,000	7/9/2015	13,405	Australia & New Zealand Banking Group Ltd.
AUD	994,150	GBP	500,000	7/9/2015	18,939	Morgan Stanley
AUD	994,130	GBP	500,000	7/9/2015	18,954	Commonwealth Bank of Australia
USD	2,390,876	JPY	300,000,000	7/9/2015	60,664	Barclays Bank PLC
SEK	7,828,492	EUR	850,000	7/9/2015	3,236	Societe Generale
SEK	7,826,953	EUR	850,000	7/9/2015	3,421	Morgan Stanley
SEK	7,836,750	NOK	7,500,000	7/9/2015	10,877	Calyon
SEK	7,861,643	NOK	7,500,000	7/9/2015	7,874	Morgan Stanley
JPY	125,000,000	KRW	1,141,500,000	7/9/2015	1,664	Nomura International PLC
JPY	125,000,000	KRW	1,141,437,500	7/9/2015	1,608	Australia & New Zealand Banking Group Ltd.
EUR	1,300,000	USD	1,468,887	7/9/2015	19,400	BNP Paribas
NZD	1,000,000	USD	699,900	7/9/2015	22,799	Macquarie bank Ltd.
NZD	500,000	USD	346,958	7/9/2015	8,407	National Australia Bank Ltd.
USD	2,624,519	EUR	2,435,500	7/13/2015	91,187	Societe Generale
EUR	1,557,000	USD	1,744,083	7/13/2015	7,949	Societe Generale
EUR	302,000	USD	337,191	7/13/2015	446	UBS AG
SEK	9,790,000	USD	1,184,682	7/13/2015	3,416	Societe Generale
SGD	1,112,000	USD	830,388	7/13/2015	4,927	Societe Generale
USD	2,501,585	SEK	21,154,100	7/13/2015	50,878	Societe Generale
USD	653,019	EUR	587,000	7/13/2015	1,516	UBS AG
NZD	2,383,000	USD	1,676,280	7/13/2015	63,362	Societe Generale
PLN	630,000	USD	168,261	8/10/2015	880	Citigroup, Inc.
USD	1,130,941	ZAR	13,900,000	8/14/2015	3,134	BNP Paribas
MXN	7,800,000	USD	504,260	8/14/2015	9,505	BNP Paribas
MXN	2,042,900	USD	130,856	8/14/2015	1,274	JPMorgan Chase Securities, Inc.
COP	1,852,500,000	USD	726,054	8/18/2015	18,538	BNP Paribas
Total unrealized appreciation					**461,676**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
CAD	1,250,000	USD	999,856	7/9/2015	(820)	Morgan Stanley
CAD	1,250,000	USD	1,000,000	7/9/2015	(676)	Macquarie Bank Ltd.
GBP	900,000	USD	1,405,143	7/9/2015	(8,889)	Morgan Stanley
JPY	300,000,000	USD	2,442,550	7/9/2015	(8,990)	Nomura International PLC
USD	631,421	CAD	766,867	7/13/2015	(17,548)	Societe Generale
NOK	11,494,000	USD	1,418,517	7/13/2015	(47,019)	BNP Paribas
SGD	1,417,000	USD	1,042,936	7/13/2015	(8,933)	UBS AG
EUR	6,084,000	USD	6,534,131	7/13/2015	(249,839)	Citigroup, Inc.
CAD	766,867	USD	609,607	7/13/2015	(4,266)	Citigroup, Inc.
SEK	21,196,000	USD	2,430,629	7/13/2015	(126,890)	Barclays Bank PLC
USD	1,518,793	NOK	11,494,000	7/13/2015	(53,257)	Barclays Bank PLC
USD	674,019	EUR	604,000	7/13/2015	(528)	Citigroup, Inc.
USD	1,208,760	SEK	9,831,900	7/13/2015	(22,439)	Barclays Bank PLC
USD	395,703	SGD	533,000	7/13/2015	(45)	Barclays Bank PLC
TRY	410,000	USD	147,507	7/20/2015	(4,634)	BNP Paribas
ZAR	23,100,000	USD	1,846,882	8/14/2015	(37,803)	BNP Paribas

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

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
USD	368,564	TRY	1,000,000	8/14/2015	(114)	Nomura International PLC
USD	498,554	MXN	7,800,000	8/14/2015	(3,798)	BNP Paribas
TRY	1,000,000	USD	355,885	8/14/2015	(12,566)	Nomura International PLC
ILS	1,850,000	USD	482,789	8/14/2015	(7,478)	Nomura International PLC
Total unrealized depreciation					**(616,532)**	

Currency Abbreviations

AUD	Australian Dollar	HUF	Hungarian Forint	MXN	Mexican Peso	SGD	Singapore Dollar
CAD	Canadian Dollar	IDR	Indonesian Rupiah	NOK	Norwegian Krone	TRY	Turkish Lira
COP	Colombian Peso	ILS	Israeli Shekel	NZD	New Zealand Dollar	USD	United States Dollar
EUR	Euro	JPY	Japanese Yen	PLN	Polish Zloty	ZAR	South African Rand
GBP	British Pound	KRW	South Korean Won	SEK	Swedish Krona		

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, 2015 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	$ —	$ 25,360,823	$ —	$ 25,360,823
Mortgage-Backed Securities Pass-Throughs	—	23,194,603	—	23,194,603
Asset-Backed	—	1,934,366	—	1,934,366
Commercial Mortgage-Backed Securities	—	3,618,630	0	3,618,630
Collateralized Mortgage Obligations	—	8,725,975	—	8,725,975
Government & Agency Obligations	—	34,124,223	—	34,124,223
Municipal Bonds and Notes	—	2,984,641	—	2,984,641
Preferred Stock	—	14,217	—	14,217
Short-Term Investments (l)	15,071,911	—	—	15,071,911
Derivatives (m)				
Futures Contracts	214,275	—	—	214,275
Interest Rate Swap Contracts	—	132,151	—	132,151
Forward Foreign Currency Exchange Contracts	—	461,676	—	461,676
Total	**$ 15,286,186**	**$100,551,305**	**$ 0**	**$115,837,491**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (m)				
Futures Contracts	$ (107,307)	$ —	$ —	$ (107,307)
Written Options	—	(184,521)	—	(184,521)
Interest Rate Swap Contracts	—	(1,325,296)	—	(1,325,296)
Credit Default Swap Contracts	—	(14,968)	—	(14,968)
Forward Foreign Currency Exchange Contracts	—	(616,532)	—	(616,532)
Total	**$ (107,307)**	**$ (2,141,317)**	**$ —**	**$ (2,248,624)**

During the period ended June 30, 2015, the amount of transfers between Level 2 and Level 3 was $8,300. 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.

(l) See Investment Portfolio for additional detailed categorizations.

(m) Derivatives include unrealized appreciation (depreciation) on open 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, 2015 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $101,240,076) — including $1,832,405 of securities loaned	$	99,957,478
Investment in Daily Assets Fund Institutional (cost $1,914,730)*		1,914,730
Investment in Central Cash Management Fund (cost $13,157,181)		13,157,181
Total investments in securities, at value (cost $116,311,987)		115,029,389
Cash		10,078
Foreign currency, at value (cost $284,254)		262,537
Receivable for investments sold		617,822
Receivable for investments sold — when-issued/delayed delivery securities		2,012,229
Receivable for Fund shares sold		491,736
Interest receivable		717,783
Receivable for variation margin on futures contracts		38,180
Receivable for variation margin on centrally cleared swaps		48,865
Unrealized appreciation on forward foreign currency exchange contracts		461,676
Foreign taxes recoverable		8,697
Other assets		638
Total assets		119,699,630
Liabilities		
Payable upon return of securities loaned		1,914,730
Payable for investments purchased		654,063
Payable for investment purchased — when-issued/delayed delivery securities		18,734,617
Payable for Fund shares redeemed		5,346
Options written, at value (premiums received $187,077)		184,521
Unrealized depreciation on forward foreign currency exchange contracts		616,532
Accrued management fee		29,240
Accrued Trustees' fees		476
Other accrued expenses and payables		137,640
Total liabilities		22,277,165
Net assets, at value	**$**	**97,422,465**
Net Assets Consist of		
Undistributed net investment income		1,372,595
Net unrealized appreciation (depreciation) on:		
Investments		(1,282,598)
Swap contracts		(1,208,113)
Futures		106,968
Foreign currency		(177,651)
Written options		2,556
Accumulated net realized gain (loss)		(15,299,413)
Paid-in capital		113,908,121
Net assets, at value	**$**	**97,422,465**
Class A		
Net Asset Value, offering and redemption price per share ($97,422,465 ÷ 17,762,828 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**5.48**

* 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, 2015 (Unaudited)

Investment Income		
Income:		
Interest (net of foreign taxes withheld of $1,149)	$	1,709,751
Income distributions — Central Cash Management Fund		4,995
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		5,674
Total income		1,720,420
Expenses:		
Management fee		194,117
Administration fee		49,774
Services to shareholders		1,095
Custodian fee		21,866
Professional fees		44,951
Reports to shareholders		22,570
Trustees' fees and expenses		3,167
Other		5,165
Total expenses before expense reductions		342,705
Expense reductions		(30,516)
Total expenses after expense reductions		312,189
Net investment income		**1,408,231**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(1,436,447)
Swap contracts		(279,818)
Futures		(526,771)
Written options		19,260
Foreign currency		1,038,900
		(1,184,876)
Change in net unrealized appreciation (depreciation) on:		
Investments		25,222
Swap contracts		(1,209,286)
Futures		108,596
Written options		594,298
Foreign currency		(96,385)
		(577,555)
Net gain (loss)		**(1,762,431)**
Net increase (decrease) in net assets resulting from operations	**$**	**(354,200)**

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, 2015 (Unaudited)	Year Ended December 31, 2014
Operations:		
Net investment income	$ 1,408,231	$ 3,111,445
Net realized gain (loss)	(1,184,876)	3,604,392
Change in net unrealized appreciation (depreciation)	(577,555)	(20,085)
Net increase (decrease) in net assets resulting from operations	(354,200)	6,695,752
Distributions to shareholders from:		
Net investment income:		
Class A	(2,926,472)	(3,659,417)
Fund share transactions:		
Class A		
Proceeds from shares sold	7,286,746	11,004,710
Reinvestment of distributions	2,926,472	3,659,417
Payments for shares redeemed	(10,910,203)	(21,178,745)
Net increase (decrease) in net assets from Class A share transactions	(696,985)	(6,514,618)
Increase (decrease) in net assets	(3,977,657)	(3,478,283)
Net assets at beginning of period	101,400,122	104,878,405
Net assets at end of period (including undistributed net investment income of $1,372,595 and $2,890,836, respectively)	**$ 97,422,465**	**$ 101,400,122**

Other Information		
Class A		
Shares outstanding at beginning of period	17,886,425	19,030,134
Shares sold	1,287,361	1,948,624
Shares issued to shareholders in reinvestment of distributions	520,725	662,938
Shares redeemed	(1,931,683)	(3,755,271)
Net increase (decrease) in Class A shares	(123,597)	(1,143,709)
Shares outstanding at end of period	**17,762,828**	**17,886,425**

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

Financial Highlights

Class A	Six Months Ended 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$ 5.67**	**$ 5.51**	**$ 5.89**	**$ 5.72**	**$ 5.66**	**$ 5.54**
Income (loss) from investment operations:						
Net investment income[a]	.08	.17	.16	.16	.22	.19
Net realized and unrealized gain (loss)	(.10)	.19	(.33)	.27	.09	.18
Total from investment operations	(.02)	.36	(.17)	.43	.31	.37
Less distributions from:						
Net investment income	(.17)	(.20)	(.21)	(.26)	(.25)	(.25)
Net asset value, end of period	**$ 5.48**	**$ 5.67**	**$ 5.51**	**$ 5.89**	**$ 5.72**	**$ 5.66**
Total Return (%)	(.47)[b**]	6.63[b]	(3.03)[b]	7.77	5.68	6.79
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	97	101	105	190	112	155
Ratio of expenses before expense reductions (%)	.69*	.69	.65	.58	.62	.59
Ratio of expenses after expense reductions (%)	.63*	.61	.56	.58	.62	.59
Ratio of net investment income (%)	2.83*	2.99	2.88	2.81	3.86	3.42
Portfolio turnover rate (%)	102**	273	418	115	219	357

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 (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 Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® International VIP (formerly Deutsche International VIP) and Deutsche Global Small Cap VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). 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. 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.

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, 2015, 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, 2014, the Fund had a net tax basis capital loss carryforward of approximately $14,056,000 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 Section 381–384 of the Internal Revenue Code.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 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, 2015, 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, 2015, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2015, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $5,369,000 to $15,219,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $3,895,000 to $38,428,000.

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, 2015, 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, 2015. 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, 2015, the investment in written options contracts had a total value generally indicative of a range from approximately $185,000 to $923,000.

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, 2015, 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, 2015 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2015, the investment in credit default swap contracts sold had a total notional value generally indicative of a range from $0 to $2,475,000.

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, 2015, 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, 2015 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2015, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $36,300,000 to $60,309,000.

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, 2015, 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, 2015, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2015, the investment in forward currency contracts U.S. dollars purchased had a total contract value generally indicative of a range from approximately $14,197,000 to $40,977,000, and the investment in forward currency contracts U.S. dollars sold had a total contract value generally indicative of a range from approximately $12,489,000 to $30,949,000.

The investment in forward currency contracts long vs. other foreign currencies sold had a total contract value generally indicative of a range from approximately $9,408,000 to $17,983,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2015 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)	$ —	$ 132,151	$ 214,275	$ 346,426
Foreign Exchange Contracts (b)	461,676	—	—	461,676
	$ 461,676	**$ 132,151**	**$ 214,275**	**$ 808,102**

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

(a) 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.

(b) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivatives	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a) (b)	$ (184,521)	$ —	$ (1,325,296)	$ (107,307)	$ (1,617,124)
Credit Contracts (b)	—	—	(14,968)	—	(14,968)
Foreign Exchange Contracts (c)	—	(616,532)	—	—	(616,532)
	$ (184,521)	**$ (616,532)**	**$ (1,340,264)**	**$ (107,307)**	**$ (2,248,624)**

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, 2015 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)	$ 19,260	$ —	$ (261,640)	$ (526,771)	$ (769,151)
Credit Contracts (b)	—	—	(18,178)	—	(18,178)
Foreign Exchange Contracts (c)	—	904,135	—	—	904,135
	$ 19,260	**$ 904,135**	**$ (279,818)**	**$ (526,771)**	**$ 116,806**

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) on swap contracts

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

Change in Net Unrealized Appreciation (Depreciation)	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a)	$ 594,298	$ —	$ (1,193,481)	$ 108,596	$ (490,587)
Credit Contracts (b)	—	—	(15,805)	—	(15,805)
Foreign Exchange Contracts (c)	—	(94,473)	—	—	(94,473)
	$ 594,298	**$ (94,473)**	**$ (1,209,286)**	**$ 108,596**	**$ (600,865)**

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, 2015, 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 counterparty, 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.	$ 15,013	$ —	$ —	$ —	$ 15,013
Barclays Bank PLC	60,664	(60,664)	—	—	—
BNP Paribas	50,577	(50,577)	—	—	—
Calyon	10,877	—	—	—	10,877
Citigroup, Inc.	880	(880)	—	—	—
Commonwealth Bank of Australia	18,954	—	—	—	18,954
JPMorgan Chase Securities, Inc.	1,274	—	—	—	1,274
Macquarie Bank Ltd.	22,799	(676)	—	—	22,123
Morgan Stanley	30,234	(30,234)	—	—	—
National Australia Bank Ltd.	8,407	—	—	—	8,407
Nomura International PLC	15,080	(15,080)	—	—	—
Societe Generale	224,955	(17,548)	—	—	207,407
UBS AG	1,962	(1,962)	—	—	—
	$ 461,676	**$ (177,621)**	**$ —**	**$ —**	**$ 284,055**

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	$ 202,631	$ (60,664)	$ —	$ —	$ 141,967
BNP Paribas	93,254	(50,577)	—	(42,677)	—
Citigroup, Inc.	331,059	(880)	—	(318,271)	11,908
Macquarie Bank Ltd.	676	(676)	—	—	—
Morgan Stanley	68,193	(30,234)	—	(37,959)	—
Nomura International PLC	78,759	(15,080)	—	(20,144)	43,535
Societe Generale	17,548	(17,548)	—	—	—
UBS AG	8,933	(1,962)	—	—	6,971
	$ 801,053	**$ (177,621)**	**$ —**	**$ (419,051)**	**$ 204,381**

(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, 2015, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury obligations) aggregated $103,021,148 and $98,245,013, respectively. Purchases and sales of U.S. Treasury obligations aggregated $5,191,152 and $5,621,567, respectively.

For the six months ended June 30, 2015, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premiums
Outstanding, beginning of period	19,200,000	$ 267,641
Options exercised	(5,600,000)	(61,304)
Options expired	(1,800,000)	(19,260)
Outstanding, end of period	**11,800,000**	**$ 187,077**

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, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annualized rate (exclusive of any applicable waivers/reimbursements) of 0.39% of the Fund's average daily net assets.

For the period from January 1, 2015 through April 30, 2015, the Advisor had contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A at 0.61%.

Effective May 1, 2015 through April 30, 2016, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A at 0.66%.

For the six months ended June 30, 2015, fees waived and/or expenses reimbursed were $30,516.

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, 2015, the Administration Fee was $49,774, of which $8,016 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, 2015, the amounts charged to the Fund by DSC aggregated $280, of which $135 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $8,206, of which $7,420 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 1940 Act, 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, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $493.

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, 2015, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, owning 46%, 23% and 11%, 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 the one-month 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, 2015.

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, 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, 2015 to June 30, 2015).

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, 2015

Actual Fund Return	**Class A**
Beginning Account Value 1/1/15	$1,000.00
Ending Account Value 6/30/15	$ 995.30
Expenses Paid per $1,000*	$ 3.12

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/15	$1,000.00
Ending Account Value 6/30/15	$1,021.67
Expenses Paid per $1,000*	$ 3.16

* 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	.63%

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 Deutsche Bond VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

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

— In September 2014, 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 counsel to discuss contract review and other matters. In addition, the Independent Trustees were 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 ("DB"), 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 Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's 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 market index 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 a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 4th 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 three- and five-year periods and has underperformed its benchmark in the one-year period ended December 31, 2013. 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 2014. The Board recognized the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche 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, 2013). 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, 2013) ("Lipper Universe Expenses"). 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 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 information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it manages an institutional account comparable to the Fund, but does not manage any comparable Deutsche Europe funds. The Board took note of the differences in services provided to Deutsche U.S. mutual funds ("Deutsche Funds") as compared to institutional accounts and that such differences made comparison difficult.

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 Deutsche 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 DIMA 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.

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 Deutsche 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 DIMA's 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 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

VS1bond-3 (R-028373-4 8/15)

Deutsche Asset
& Wealth Management

June 30, 2015

Semiannual Report

Deutsche Variable Series I

Deutsche 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.

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

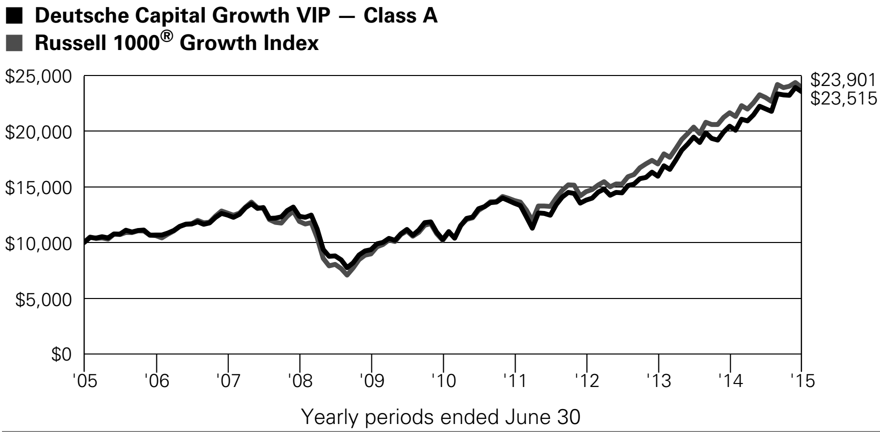
Performance Summary

June 30, 2015 (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, 2015 are 0.50% and 0.80% 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	$10,704	$11,520	$17,056	$22,887	$23,515
	Average annual total return	7.04%	15.20%	19.48%	18.01%	8.93%
Russell 1000 Growth Index	Growth of $10,000	$10,396	$11,056	$16,427	$23,454	$23,901
	Average annual total return	3.96%	10.56%	17.99%	18.59%	9.10%

Deutsche Capital Growth VIP		**6-Month‡**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$10,690	$11,491	$16,901	$22,532	$22,755
	Average annual total return	6.90%	14.91%	19.12%	17.64%	8.57%
Russell 1000 Growth Index	Growth of $10,000	$10,396	$11,056	$16,427	$23,454	$23,901
	Average annual total return	3.96%	10.56%	17.99%	18.59%	9.10%

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)	**6/30/15**	**12/31/14**
Common Stocks	99%	99%
Cash Equivalents	1%	0%
Convertible Preferred Stock	0%	—
Convertible Bonds	—	1%
	100%	100%

Sector Diversification (As a % of Common Stocks, Convertible Bond and Convertible Preferred Stock)	**6/30/15**	**12/31/14**
Information Technology	28%	28%
Consumer Discretionary	19%	19%
Health Care	19%	16%
Industrials	11%	12%
Consumer Staples	10%	10%
Financials	5%	6%
Materials	4%	3%
Energy	2%	4%
Telecommunication Services	1%	1%
Utilities	1%	1%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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

Owen Fitzpatrick, CFA
Lead Portfolio Manager

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

	Shares	Value ($)
Common Stocks 99.2%		
Consumer Discretionary 19.1%		
Auto Components 0.7%		
BorgWarner, Inc.	111,658	**6,346,641**
Hotels, Restaurants & Leisure 1.8%		
Bloomin' Brands, Inc.	67,068	1,431,902
Brinker International, Inc. (a)	158,531	9,139,312
Las Vegas Sands Corp. (a)	122,452	6,437,301
		17,008,515
Internet & Catalog Retail 2.6%		
Amazon.com, Inc.*	43,098	18,708,411
Expedia, Inc. (a)	50,412	5,512,552
		24,220,963
Media 3.9%		
Twenty-First Century Fox, Inc. "A"	445,389	14,495,185
Walt Disney Co. (a)	183,865	20,986,351
		35,481,536
Specialty Retail 6.5%		
Dick's Sporting Goods, Inc. (a)	159,710	8,268,187
Home Depot, Inc.	213,643	23,742,146
L Brands, Inc.	200,545	17,192,723
O'Reilly Automotive, Inc.*	45,269	10,229,889
		59,432,945
Textiles, Apparel & Luxury Goods 3.6%		
NIKE, Inc. "B"	194,847	21,047,373
VF Corp.	171,638	11,970,034
		33,017,407
Consumer Staples 10.1%		
Beverages 1.7%		
PepsiCo, Inc.	165,439	**15,442,076**
Food & Staples Retailing 2.4%		
Costco Wholesale Corp.	95,032	12,835,022
Rite Aid Corp.* (a)	1,119,956	9,351,633
		22,186,655
Food Products 4.8%		
Mead Johnson Nutrition Co.	169,609	15,302,124
Mondelez International, Inc. "A"	225,141	9,262,301
The WhiteWave Foods Co.*	390,134	19,069,750
		43,634,175
Personal Products 1.2%		
Estee Lauder Companies, Inc. "A"	129,456	**11,218,657**
Energy 1.7%		
Oil, Gas & Consumable Fuels		
Concho Resources, Inc.* (a)	75,448	8,590,509
Valero Energy Corp.	113,099	7,079,998
		15,670,507
Financials 5.5%		
Capital Markets 2.6%		
Affiliated Managers Group, Inc.*	48,708	10,647,568
Ameriprise Financial, Inc.	55,516	6,935,614
The Charles Schwab Corp.	202,352	6,606,793
		24,189,975
Consumer Finance 1.2%		
Capital One Financial Corp. (a)	129,497	**11,391,851**
Diversified Financial Services 0.9%		
Intercontinental Exchange, Inc.	34,838	**7,790,125**

	Shares	Value ($)
Real Estate Investment Trusts 0.8%		
Crown Castle International Corp (REIT)	88,022	**7,068,167**
Health Care 18.5%		
Biotechnology 7.3%		
Alexion Pharmaceuticals, Inc.*	39,754	7,186,330
Alnylam Pharmaceuticals, Inc.* (a)	21,274	2,550,114
Celgene Corp.*	176,571	20,435,445
Cepheid, Inc.* (a)	113,905	6,965,291
Gilead Sciences, Inc.	162,035	18,971,058
Medivation, Inc.*	91,015	10,393,913
		66,502,151
Health Care Equipment & Supplies 1.5%		
Becton, Dickinson & Co.	33,279	4,713,970
St. Jude Medical, Inc.	124,464	9,094,585
		13,808,555
Health Care Providers & Services 4.8%		
Anthem, Inc.	51,520	8,456,493
Cigna Corp.	44,294	7,175,628
Express Scripts Holding Co.*	89,497	7,959,863
HCA Holdings, Inc.*	45,833	4,157,970
McKesson Corp.	61,632	13,855,490
Omnicare, Inc.	26,111	2,460,961
		44,066,405
Life Sciences Tools & Services 1.6%		
Thermo Fisher Scientific, Inc.	114,492	**14,856,482**
Pharmaceuticals 3.3%		
Allergan PLC*	54,773	16,621,415
Shire PLC (ADR)	55,933	13,507,260
		30,128,675
Industrials 11.5%		
Aerospace & Defense 3.4%		
BE Aerospace, Inc.	110,968	6,092,143
Boeing Co.	121,000	16,785,120
TransDigm Group, Inc.* (a)	37,382	8,398,614
		31,275,877
Commercial Services & Supplies 0.9%		
Stericycle, Inc.* (a)	63,842	**8,549,082**
Electrical Equipment 1.4%		
AMETEK, Inc. (a)	228,492	**12,516,792**
Industrial Conglomerates 2.8%		
Danaher Corp.	108,506	9,287,029
General Electric Co.	173,443	4,608,380
Roper Technologies, Inc. (a)	68,218	11,764,876
		25,660,285
Machinery 2.0%		
Dover Corp. (a)	68,972	4,840,455
Parker-Hannifin Corp. (a)	115,648	13,453,332
		18,293,787
Road & Rail 1.0%		
Norfolk Southern Corp.	105,105	**9,181,973**
Information Technology 27.8%		
Communications Equipment 1.3%		
Palo Alto Networks, Inc.* (a)	69,812	**12,196,156**
Internet Software & Services 5.9%		
Facebook, Inc. "A"*	200,676	17,210,977
Google, Inc. "A"*	28,747	15,524,530

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

	Shares	Value ($)
Google, Inc. "C"*	28,970	15,079,175
LinkedIn Corp. "A"*	29,137	6,020,578
		53,835,260
IT Services 3.9%		
Cognizant Technology Solutions Corp. "A"*	138,826	8,480,880
MasterCard, Inc. "A"	50,650	4,734,762
Visa, Inc. "A" (a)	335,210	22,509,352
		35,724,994
Semiconductors & Semiconductor Equipment 3.1%		
Analog Devices, Inc.	111,542	7,159,323
Avago Technologies Ltd.	66,179	8,797,175
Broadcom Corp. "A"	83,076	4,277,583
NXP Semiconductors NV*	86,206	8,465,429
		28,699,510
Software 6.3%		
Adobe Systems, Inc.*	171,761	13,914,358
Microsoft Corp.	436,847	19,286,795
Oracle Corp.	357,176	14,394,193
Salesforce.com, Inc.*	137,687	9,587,146
		57,182,492
Technology Hardware, Storage & Peripherals 7.3%		
Apple, Inc.	455,032	57,072,389
EMC Corp.	203,064	5,358,859
Western Digital Corp.	60,745	4,763,623
		67,194,871
Materials 3.9%		
Chemicals 3.5%		
Dow Chemical Co.	189,111	9,676,810
Ecolab, Inc.	118,940	13,448,545
PPG Industries, Inc.	80,464	9,230,830
		32,356,185
Metals & Mining 0.4%		
Freeport-McMoRan, Inc.	204,387	**3,805,686**
Telecommunication Services 0.6%		
Diversified Telecommunication Services		
Level 3 Communications, Inc.*	92,963	4,896,361
Zayo Group Holdings, Inc.* (a)	22,945	590,146
		5,486,507
Utilities 0.5%		
Water Utilities		
American Water Works Co., Inc.	89,210	**4,338,283**
Total Common Stocks (Cost $563,556,726)		**909,760,203**

Convertible Preferred Stock 0.1%

Health Care

	Shares	Value ($)
Allergan PLC, Series A, 5.5% (Cost $1,100,000)	1,100	**1,146,838**

Securities Lending Collateral 11.2%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.16% (b) (c) (Cost $102,895,309)	102,895,309	**102,895,309**

Cash Equivalents 0.7%

	Shares	Value ($)
Central Cash Management Fund, 0.09% (b) (Cost $5,884,959)	5,884,959	**5,884,959**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $673,436,994)†	111.2	**1,019,687,309**
Other Assets and Liabilities, Net	(11.2)	**(102,529,021)**
Net Assets	100.0	**917,158,288**

* Non-income producing security.

† The cost for federal income tax purposes was $673,906,705. At June 30, 2015, net unrealized appreciation for all securities based on tax cost was $345,780,604. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $351,256,017 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $5,475,413.

(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, 2015 amounted to $102,234,271, which is 11.1% of net assets.

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

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

ADR: American Depositary Receipt

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, 2015 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)	$ 909,760,203	$ —	$ —	$ 909,760,203
Convertible Preferred Stock	1,146,838	—	—	1,146,838
Short-Term Investments (d)	108,780,268	—	—	108,780,268
Total	**$1,019,687,309**	**$ —**	**$ —**	**$1,019,687,309**

There have been no transfers between fair value measurement levels during the period ended June 30, 2015.

(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, 2015 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $564,656,726) — including $102,234,271 of securities loaned	$ 910,907,041
Investment in Daily Assets Fund Institutional (cost $102,895,309)*	102,895,309
Investment in Central Cash Management Fund (cost $5,884,959)	5,884,959
Total investments in securities, at value (cost $673,436,994)	1,019,687,309
Receivable for investments sold	36,092,765
Receivable for Fund shares sold	8,394
Dividends receivable	519,959
Interest receivable	11,086
Other assets	7,678
Total assets	1,056,327,191
Liabilities	
Payable upon return of securities loaned	102,895,309
Payable for investments purchased	35,057,857
Payable for Fund shares redeemed	744,430
Accrued management fee	285,860
Accrued Trustees' fees	3,090
Other accrued expenses and payables	182,357
Total liabilities	139,168,903
Net assets, at value	**$ 917,158,288**
Net Assets Consist of	
Undistributed net investment income	3,673,312
Net unrealized appreciation (depreciation) on Investments	346,250,315
Accumulated net realized gain (loss)	24,099,915
Paid-in capital	543,134,746
Net assets, at value	**$ 917,158,288**
Class A	
Net Asset Value, offering and redemption price per share ($913,922,094 ÷ 32,862,304 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 27.81**
Class B	
Net Asset Value, offering and redemption price per share ($3,236,194 ÷ 116,618 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 27.75**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2015 (Unaudited)

Investment Income	
Income:	
Dividends	$ 5,985,408
Income distributions — Central Cash Management Fund	2,504
Interest	6,008
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	52,854
Total income	6,046,774
Expenses:	
Management fee	1,699,188
Administration fee	457,039
Services to shareholders	1,938
Record keeping fee (Class B)	109
Distribution and service fees (Class B)	4,249
Custodian fee	11,255
Professional fees	42,833
Reports to shareholders	29,386
Trustees' fees and expenses	17,324
Other	16,151
Total expenses	2,279,472
Net investment income (loss)	**3,767,302**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from Investments	39,983,656
Change in net unrealized appreciation (depreciation) on investments	18,500,065
Net gain (loss)	**58,483,721**
Net increase (decrease) in net assets resulting from operations	**$ 62,251,023**

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, 2015 (Unaudited)	Year Ended December 31, 2014
Operations:		
Net investment income (loss)	$ 3,767,302	$ 6,418,200
Net realized gain (loss)	39,983,656	126,077,955
Change in net unrealized appreciation (depreciation)	18,500,065	(29,242,203)
Net increase (decrease) in net assets resulting from operations	62,251,023	103,253,952
Distributions to shareholders from:		
Net investment income:		
Class A	(6,323,352)	(5,280,971)
Class B	(12,995)	(41,098)
Net realized gains:		
Class A	(117,055,763)	(48,279,027)
Class B	(434,436)	(767,015)
Total distributions	(123,826,546)	(54,368,111)
Fund share transactions:		
Class A		
Proceeds from shares sold	19,484,383	51,156,495
Reinvestment of distributions	123,379,115	53,559,998
Payments for shares redeemed	(57,940,451)	(101,225,789)
Net increase (decrease) in net assets from Class A share transactions	84,923,047	3,490,704
Class B		
Proceeds from shares sold	395,336	1,318,640
Reinvestment of distributions	447,431	808,113
Payments for shares redeemed	(773,515)	(11,748,491)
Net increase (decrease) in net assets from Class B share transactions	69,252	(9,621,738)
Increase (decrease) in net assets	23,416,776	42,754,807
Net assets at beginning of period	893,741,512	850,986,705
Net assets at end of period (including undistributed net investment income of $3,673,312 and $6,242,357, respectively)	**$ 917,158,288**	**$ 893,741,512**

Other Information		
Class A		
Shares outstanding at beginning of period	29,731,475	29,474,327
Shares sold	656,672	1,781,210
Shares issued to shareholders in reinvestment of distributions	4,417,441	2,074,361
Shares redeemed	(1,943,284)	(3,598,423)
Net increase (decrease) in Class A shares	3,130,829	257,148
Shares outstanding at end of period	**32,862,304**	**29,731,475**
Class B		
Shares outstanding at beginning of period	113,396	484,326
Shares sold	13,036	46,596
Shares issued to shareholders in reinvestment of distributions	16,048	31,359
Shares redeemed	(25,862)	(448,885)
Net increase (decrease) in Class B shares	3,222	(370,930)
Shares outstanding at end of period	**116,618**	**113,396**

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

Financial Highlights

Class A	Six Months Ended 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$29.95**	**$28.41**	**$21.38**	**$18.58**	**$19.59**	**$16.93**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.12	.21	.21	.28	.17	.14[c]
Net realized and unrealized gain (loss)	2.01	3.18	7.12	2.70	(1.03)	2.68
Total from investment operations	2.13	3.39	7.33	2.98	(.86)	2.82
Less distributions from:						
Net investment income	(.22)	(.18)	(.30)	(.18)	(.15)	(.16)
Net realized gains	(4.05)	(1.67)	—	—	—	—
Total distributions	(4.27)	(1.85)	(.30)	(.18)	(.15)	(.16)
Net asset value, end of period	**$27.81**	**$29.95**	**$28.41**	**$21.38**	**$18.58**	**$19.59**
Total Return (%)	7.04**	12.97	34.65	16.05	(4.47)	16.71[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	914	890	837	701	677	729
Ratio of expenses before expense reductions (%)	.50*	.50	.50	.50	.50	.51
Ratio of expenses after expense reductions (%)	.50*	.50	.50	.50	.50	.51
Ratio of net investment income (loss) (%)	.83*	.76	.85	1.32	.86	.78[c]
Portfolio turnover rate (%)	21**	47	37	25	47	42

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 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$29.84**	**$28.29**	**$21.29**	**$18.51**	**$19.51**	**$16.86**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.08	.09	.13	.20	.10	.08[c]
Net realized and unrealized gain (loss)	2.00	3.22	7.10	2.69	(1.02)	2.67
Total from investment operations	2.08	3.31	7.23	2.89	(.92)	2.75
Less distributions from:						
Net investment income	(.12)	(.09)	(.23)	(.11)	(.08)	(.10)
Net realized gains	(4.05)	(1.67)	—	—	—	—
Total distributions	(4.17)	(1.76)	(.23)	(.11)	(.08)	(.10)
Net asset value, end of period	**$27.75**	**$29.84**	**$28.29**	**$21.29**	**$18.51**	**$19.51**
Total Return (%)	6.90**	12.67	34.19	15.61	(4.76)	16.33[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	3	3	14	13	13	12
Ratio of expenses before expense reductions (%)	.76*	.80	.83	.83	.84	.85
Ratio of expenses after expense reductions (%)	.76*	.80	.83	.83	.84	.84
Ratio of net investment income (loss) (%)	.56*	.33	.52	.97	.52	.45[c]
Portfolio turnover rate (%)	21**	47	37	25	47	42

a Based on average shares outstanding during the period.

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

c Net investment income per share and ratio of net investment income include non-recurring dividend income amounting to $0.05 per share and 0.28% of average daily net assets for the year ended December 31, 2010.

* Annualized

** Not annualized

Notes to Financial Statements

A. Organization and Significant Accounting Policies

Deutsche 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 Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® International VIP (formerly Deutsche International VIP) and Deutsche Global Small Cap VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). 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, 2015, 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, 2014, the Fund had a net tax basis capital loss carryforward of approximately $15,222,000 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, 2014 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, 2015, purchases and sales of investment securities (excluding short-term investments) aggregated $191,103,748 and $221,003,035, 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, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annualized rate (exclusive of any applicable waivers/reimbursements) of 0.37% of the Fund's average daily net assets.

For the period from January 1, 2015 through September 30, 2015, 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 total annual 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, 2015, the Administration Fee was $457,039, of which $76,910 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, 2015, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2015
Class A	$ 371	$ 179
Class B	97	42
	$ 468	**$ 221**

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, 2015, the Distribution Service Fee aggregated $4,249, of which $680 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $7,174, of which $6,404 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 1940 Act, 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, 2015, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 42%, 35% and 11%, 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 76% and 12%, 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 the one-month 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, 2015.

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, 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, 2015 to June 30, 2015).

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, 2015

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$1,070.40	$1,069.00
Expenses Paid per $1,000*	$ 2.57	$ 3.90
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$1,022.32	$1,021.03
Expenses Paid per $1,000*	$ 2.51	$ 3.81

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series I — Deutsche Capital Growth VIP	.50%	.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 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 Deutsche Capital Growth VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

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

— In September 2014, 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 counsel to discuss contract review and other matters. In addition, the Independent Trustees were 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 ("DB"), 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 Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's 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 market index 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 a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 3rd 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-year period and has underperformed its benchmark in the three- and five-year periods ended December 31, 2013.

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, 2013). 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, 2013) ("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 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 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 information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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 Deutsche U.S. mutual funds ("Deutsche 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 DIMA 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.

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 Deutsche 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 DIMA's 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 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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

Deutsche Asset
& Wealth Management

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

VS1capgro-3 (R-028374-4 8/15)

Deutsche Asset
& Wealth Management

June 30, 2015

Semiannual Report

Deutsche Variable Series I

Deutsche 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.

Stocks may decline in value. Fund management could be wrong in its analysis of industries, companies, economic trends and favor a security that underperforms the market. The Fund may lend securities to approved institutions. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. 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.

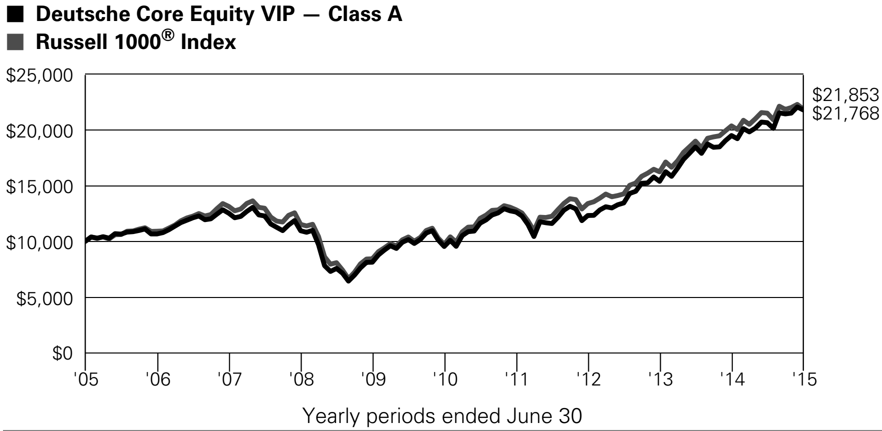
Performance Summary

June 30, 2015 (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, 2015 are 0.57% and 0.82% 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	$10,549	$11,170	$17,669	$22,806	$21,768
	Average annual total return	5.49%	11.70%	20.89%	17.93%	8.09%
Russell 1000® Index	Growth of $10,000	$10,171	$10,737	$16,317	$22,470	$21,853
	Average annual total return	1.71%	7.37%	17.73%	17.58%	8.13%

Deutsche Core Equity VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,531	$11,134	$17,543	$22,501	$21,198
	Average annual total return	5.31%	11.34%	20.61%	17.61%	7.80%
Russell 1000® Index	Growth of $10,000	$10,171	$10,737	$16,317	$22,470	$21,853
	Average annual total return	1.71%	7.37%	17.73%	17.58%	8.13%

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)	**6/30/15**	**12/31/14**
Common Stocks	99%	99%
Cash Equivalents	1%	1%
Convertible Bond	0%	0%
Convertible Preferred Stock	0%	—
	100%	100%

Sector Diversification (As a % of Common Stocks, Convertible Bond and Convertible Preferred Stock)	**6/30/15**	**12/31/14**
Information Technology	20%	20%
Health Care	17%	17%
Financials	16%	16%
Consumer Discretionary	13%	13%
Consumer Staples	10%	9%
Industrials	10%	11%
Energy	7%	8%
Materials	4%	3%
Utilities	2%	2%
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 5.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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

Owen Fitzpatrick, CFA
Lead Portfolio Manager

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

	Shares	Value ($)
Common Stocks 98.4%		
Consumer Discretionary 12.8%		
Auto Components 0.9%		
BorgWarner, Inc.	37,019	**2,104,160**
Hotels, Restaurants & Leisure 1.5%		
Bloomin' Brands, Inc.	15,842	338,227
Brinker International, Inc.	35,464	2,044,500
Las Vegas Sands Corp. (a)	15,839	832,656
		3,215,383
Internet & Catalog Retail 1.3%		
Amazon.com, Inc.*	3,303	1,433,799
Expedia, Inc. (a)	12,571	1,374,639
		2,808,438
Media 2.0%		
Twenty-First Century Fox, Inc. "A"	47,676	1,551,615
Walt Disney Co.	24,582	2,805,790
		4,357,405
Specialty Retail 4.9%		
Advance Auto Parts, Inc.	11,936	1,901,285
Dick's Sporting Goods, Inc.	24,752	1,281,411
Home Depot, Inc.	30,376	3,375,685
L Brands, Inc.	47,533	4,075,004
		10,633,385
Textiles, Apparel & Luxury Goods 2.2%		
NIKE, Inc. "B"	34,100	3,683,482
VF Corp.	15,110	1,053,771
		4,737,253
Consumer Staples 10.5%		
Beverages 1.3%		
PepsiCo, Inc.	31,008	**2,894,287**
Food & Staples Retailing 3.3%		
Costco Wholesale Corp.	14,887	2,010,638
Kroger Co.	41,165	2,984,874
Rite Aid Corp.*	264,973	2,212,525
		7,208,037
Food Products 4.4%		
ConAgra Foods, Inc.	49,797	2,177,125
Mead Johnson Nutrition Co.	38,471	3,470,853
The WhiteWave Foods Co.*	80,966	3,957,618
		9,605,596
Household Products 0.7%		
Procter & Gamble Co.	18,406	**1,440,085**
Personal Products 0.8%		
Estee Lauder Companies, Inc. "A"	20,710	**1,794,729**
Energy 7.0%		
Energy Equipment & Services 0.7%		
Schlumberger Ltd.	19,349	**1,667,690**
Oil, Gas & Consumable Fuels 6.3%		
Anadarko Petroleum Corp.	41,118	3,209,671
Chevron Corp.	23,303	2,248,041
EOG Resources, Inc.	29,186	2,555,234
Occidental Petroleum Corp.	37,223	2,894,833
Phillips 66	34,556	2,783,831
		13,691,610

	Shares	Value ($)
Financials 15.7%		
Banks 7.2%		
Citigroup, Inc.	104,189	5,755,400
JPMorgan Chase & Co.	94,030	6,371,473
Regions Financial Corp.	358,096	3,709,875
		15,836,748
Capital Markets 2.1%		
Ameriprise Financial, Inc.	17,578	2,196,019
Bank of New York Mellon Corp.	54,705	2,295,969
		4,491,988
Consumer Finance 2.1%		
Capital One Financial Corp.	51,737	**4,551,304**
Insurance 3.2%		
MetLife, Inc.	56,726	3,176,089
Prudential Financial, Inc.	42,847	3,749,969
		6,926,058
Real Estate Investment Trusts 1.1%		
Prologis, Inc. (REIT)	64,779	**2,403,301**
Health Care 16.4%		
Biotechnology 4.0%		
Celgene Corp.*	36,522	4,226,874
Gilead Sciences, Inc.	21,223	2,484,789
Medivation, Inc.*	16,783	1,916,618
		8,628,281
Health Care Equipment & Supplies 2.4%		
Becton, Dickinson & Co.	16,862	2,388,502
St. Jude Medical, Inc.	39,663	2,898,176
		5,286,678
Health Care Providers & Services 2.8%		
Anthem, Inc.	17,477	2,868,675
HCA Holdings, Inc.*	13,456	1,220,728
McKesson Corp.	9,269	2,083,764
		6,173,167
Life Sciences Tools & Services 1.8%		
Thermo Fisher Scientific, Inc.	31,140	**4,040,726**
Pharmaceuticals 5.4%		
Allergan PLC*	4,679	1,419,889
Bristol-Myers Squibb Co.	17,652	1,174,564
Merck & Co., Inc.	60,906	3,467,379
Pfizer, Inc.	104,317	3,497,749
Shire PLC (ADR) (a)	8,902	2,149,744
		11,709,325
Industrials 10.2%		
Aerospace & Defense 2.8%		
Boeing Co.	29,654	4,113,603
TransDigm Group, Inc.*	9,369	2,104,933
		6,218,536
Electrical Equipment 2.0%		
AMETEK, Inc.	55,920	3,063,298
Regal Beloit Corp.	17,845	1,295,368
		4,358,666
Industrial Conglomerates 3.0%		
General Electric Co.	129,653	3,444,881
Roper Technologies, Inc.	18,585	3,205,169
		6,650,050
Machinery 1.0%		
Parker-Hannifin Corp. (a)	18,455	**2,146,870**

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

	Shares	Value ($)
Road & Rail 1.4%		
Norfolk Southern Corp.	33,794	**2,952,244**
Information Technology 19.5%		
Communications Equipment 1.7%		
Cisco Systems, Inc.	88,573	2,432,214
Palo Alto Networks, Inc.*	7,021	1,226,569
		3,658,783
Internet Software & Services 3.5%		
Facebook, Inc. "A"*	31,376	2,690,963
Google, Inc. "A"*	4,633	2,502,005
Google, Inc. "C"*	4,659	2,425,056
		7,618,024
IT Services 2.5%		
Cognizant Technology Solutions Corp. "A"*	29,584	1,807,287
Visa, Inc. "A" (a)	55,570	3,731,525
		5,538,812
Semiconductors & Semiconductor Equipment 2.9%		
Analog Devices, Inc.	20,586	1,321,312
Avago Technologies Ltd.	12,777	1,698,447
Intel Corp.	59,212	1,800,933
NXP Semiconductors NV*	16,325	1,603,115
		6,423,807
Software 4.2%		
Intuit, Inc.	15,855	1,597,708
Microsoft Corp.	77,799	3,434,826
Oracle Corp.	63,214	2,547,524
Salesforce.com, Inc.*	21,065	1,466,756
		9,046,814
Technology Hardware, Storage & Peripherals 4.7%		
Apple, Inc.	60,639	7,605,647
EMC Corp.	63,487	1,675,422
Western Digital Corp.	12,343	967,938
		10,249,007
Materials 3.6%		
Chemicals 2.0%		
Dow Chemical Co.	37,215	1,904,291
Ecolab, Inc.	22,738	2,570,986
		4,475,277
Containers & Packaging 1.6%		
Sealed Air Corp.	67,417	**3,463,886**
Telecommunication Services 0.9%		
Wireless Telecommunication Services		
T-Mobile U.S., Inc.*	51,257	**1,987,234**
Utilities 1.8%		
Electric Utilities 0.7%		
NextEra Energy, Inc.	15,854	**1,554,168**
Water Utilities 1.1%		
American Water Works Co., Inc.	50,186	**2,440,545**
Total Common Stocks (Cost $175,066,635)		**214,988,357**

	Principal Amount ($)	Value ($)
Convertible Bond 0.3%		
Consumer Discretionary		
Fiat Chrysler Automobiles NV, 7.875%, 12/15/2016 (Cost $440,000)	440,000	**554,950**

	Shares	Value ($)
Convertible Preferred Stock 0.1%		
Health Care		
Allergan PLC, Series A, 5.5% (Cost $300,000)	300	**312,774**
Securities Lending Collateral 2.6%		
Daily Assets Fund Institutional, 0.16% (b) (c) (Cost $5,574,636)	5,574,636	**5,574,636**
Cash Equivalents 0.9%		
Central Cash Management Fund, 0.09% (b) (Cost $2,037,386)	2,037,386	**2,037,386**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $183,418,657)†	102.3	**223,468,103**
Other Assets and Liabilities, Net	(2.3)	**(5,037,250)**
Net Assets	100.0	**218,430,853**

* Non-income producing security.

† The cost for federal income tax purposes was $183,507,720. At June 30, 2015, net unrealized appreciation for all securities based on tax cost was $39,960,383. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $42,193,859 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,233,476.

(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, 2015 amounted to $5,547,637, which is 2.5% of net assets.

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

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

ADR: American Depositary Receipt

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, 2015 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)	$214,988,357	$ —	$ —	$214,988,357
Convertible Bond	—	554,950	—	554,950
Convertible Preferred Stock	312,774	—	—	312,774
Short-Term Investments (d)	7,612,022	—	—	7,612,022
Total	**$222,913,153**	**$ 554,950**	**$ —**	**$223,468,103**

There have been no transfers between fair value measurement levels during the period ended June 30, 2015.

(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, 2015 (Unaudited)

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $175,806,635) — including $5,547,637 of securities loaned	$ 215,856,081
Investment in Daily Assets Fund Institutional (cost $5,574,636)*	5,574,636
Investment in Central Cash Management Fund (cost $2,037,386)	2,037,386
Total investments in securities, at value (cost $183,418,657)	223,468,103
Cash	269,298
Receivable for investments sold	3,367,569
Receivable for Fund shares sold	72,381
Dividends receivable	197,580
Interest receivable	19,573
Other assets	1,555
Total assets	227,396,059
Liabilities	
Payable upon return of securities loaned	5,574,636
Payable for investments purchased	2,750,051
Payable for Fund shares redeemed	479,286
Accrued management fee	71,423
Accrued Trustees' fees	549
Other accrued expenses and payables	89,261
Total liabilities	8,965,206
Net assets, at value	**$ 218,430,853**
Net Assets Consist of	
Undistributed net investment income	1,186,734
Net unrealized appreciation (depreciation) on investments	40,049,446
Accumulated net realized gain (loss)	8,313,105
Paid-in capital	168,881,568
Net assets, at value	**$ 218,430,853**
Class A	
Net Asset Value, offering and redemption price per share ($216,414,149 ÷ 16,250,362 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 13.32**
Class B	
Net Asset Value, offering and redemption price per share ($2,016,704 ÷ 151,465 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 13.31**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2015 (Unaudited)

Investment Income	
Income:	
Dividends	$ 1,846,444
Interest	17,566
Income distributions — Central Cash Management Fund	468
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	4,602
Total income	1,869,080
Expenses:	
Management fee	430,907
Administration fee	110,489
Services to shareholders	1,298
Record keeping fee (Class B)	52
Distribution service fee (Class B)	2,379
Custodian fee	9,079
Professional fees	36,986
Reports to shareholders	20,065
Trustees' fees and expenses	5,399
Other	5,025
Total expenses	621,679
Net investment income	**1,247,401**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from investments	8,406,773
Change in net unrealized appreciation (depreciation) on investments	2,252,019
Net gain (loss)	**10,658,792**
Net increase (decrease) in net assets resulting from operations	**$ 11,906,193**

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, 2015 (Unaudited)	Year Ended December 31, 2014
Operations:		
Net investment income	$ 1,247,401	$ 1,881,277
Net realized gain (loss)	8,406,773	17,630,326
Change in net unrealized appreciation (depreciation)	2,252,019	4,906,485
Net increase (decrease) in net assets resulting from operations	11,906,193	24,418,088
Distributions to shareholders from:		
Net investment income:		
Class A	(1,815,630)	(2,373,232)
Class B	(11,196)	(16,034)
Net realized gains:		
Class A	(491,871)	—
Class B	(4,384)	—
Total distributions	(2,323,081)	(2,389,266)
Fund share transactions:		
Class A		
Proceeds from shares sold	5,459,165	9,130,365
Reinvestment of distributions	2,307,501	2,373,232
Payments for shares redeemed	(21,158,564)	(36,253,798)
Net increase (decrease) in net assets from Class A share transactions	(13,391,898)	(24,750,201)
Class B		
Proceeds from shares sold	287,005	50,380
Reinvestment of distributions	15,580	16,034
Payments for shares redeemed	(179,496)	(301,019)
Net increase (decrease) in net assets from Class B share transactions	123,089	(234,605)
Increase (decrease) in net assets	(3,685,697)	(2,955,984)
Net assets at beginning of period	222,116,550	225,072,534
Net assets at end of period (including undistributed net investment income of $1,186,734 and $1,766,159, respectively)	**$ 218,430,853**	**$ 222,116,550**

Other Information		
Class A		
Shares outstanding at beginning of period	17,268,971	19,342,719
Shares sold	415,527	762,045
Shares issued to shareholders in reinvestment of distributions	173,366	210,580
Shares redeemed	(1,607,502)	(3,046,373)
Net increase (decrease) in Class A shares	(1,018,609)	(2,073,748)
Shares outstanding at end of period	**16,250,362**	**17,268,971**
Class B		
Shares outstanding at beginning of period	142,262	161,956
Shares sold	21,689	4,074
Shares issued to shareholders in reinvestment of distributions	1,171	1,423
Shares redeemed	(13,657)	(25,191)
Net increase (decrease) in Class B shares	9,203	(19,694)
Shares outstanding at end of period	**151,465**	**142,262**

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

Financial Highlights

Class A

	Six Months Ended 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$12.76**	**$11.54**	**$ 8.53**	**$ 7.46**	**$ 7.56**	**$ 6.71**
Income (loss) from investment operations:						
Net investment income[a]	.07	.10	.12	.15	.10	.09
Net realized and unrealized gain (loss)	.63	1.25	3.03	1.03	(.10)	.87
Total from investment operations	.70	1.35	3.15	1.18	.00	.96
Less distributions from:						
Net investment income	(.11)	(.13)	(.14)	(.11)	(.10)	(.11)
Net realized gains	(.03)	—	—	—	—	—
Total distributions	(.14)	—	—	—	—	—
Net asset value, end of period	**$13.32**	**$12.76**	**$11.54**	**$ 8.53**	**$ 7.46**	**$ 7.56**
Total Return (%)	5.49**	11.82	37.33	15.81	(.14)	14.40[b]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	216	220	223	180	85	98
Ratio of expenses before expense reductions (%)	.56*	.57	.56	.59	.63	.63
Ratio of expenses after expense reductions (%)	.56*	.57	.56	.59	.63	.60
Ratio of net investment income (%)	1.13*	.86	1.20	1.90	1.25	1.32
Portfolio turnover rate (%)	17**	48	238	307	215	145

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 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$12.74**	**$11.53**	**$ 8.51**	**$ 7.45**	**$ 7.55**	**$ 6.70**
Income (loss) from investment operations:						
Net investment income[a]	.06	.07	.10	.11	.08	.07
Net realized and unrealized gain (loss)	.62	1.24	3.03	1.03	(.10)	.87
Total from investment operations	.68	1.31	3.13	1.14	(.02)	.94
Less distributions from:						
Net investment income	(.08)	(.10)	(.11)	(.08)	(.08)	(.09)
Net realized gains	(.03)	—	—	—	—	—
Total distributions	(.11)	—	—	—	—	—
Net asset value, end of period	**$13.31**	**$12.74**	**$11.53**	**$ 8.51**	**$ 7.45**	**$ 7.55**
Total Return (%)	5.31**	11.52	37.10	15.41	(.40)	14.12[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 (%)	.82*	.82	.76	.90	.88	.88
Ratio of expenses after expense reductions (%)	.82*	.82	.76	.90	.88	.85
Ratio of net investment income (%)	.88*	.60	1.00	1.41	.99	1.07
Portfolio turnover rate (%)	17**	48	238	307	215	145

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 (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 Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® International VIP (formerly Deutsche International VIP) and Deutsche Global Small Cap VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). 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, 2015, 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.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 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, 2015, purchases and sales of investment securities (excluding short-term investments) aggregated $36,638,846 and $50,378,350, 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, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annualized rate (exclusive of any applicable waivers/reimbursements) of 0.39% of the Fund's average daily net assets.

For the period from January 1, 2015 through September 30, 2015, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.85%
Class B	1.10%

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, 2015, the Administration Fee was $110,489, of which $18,314 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, 2015, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2015
Class A	$ 288	$ 143
Class B	44	15
	$ 332	**$ 158**

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, 2015, the Distribution Service Fee aggregated $2,379, of which $423 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $7,692, of which $6,762 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 1940 Act, 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, 2015, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 47% and 30%, 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 71% and 12%, 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 the one-month 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, 2015.

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, 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, 2015 to June 30, 2015).

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, 2015

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$1,054.90	$1,053.10
Expenses Paid per $1,000*	$ 2.85	$ 4.17
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$1,022.02	$1,020.73
Expenses Paid per $1,000*	$ 2.81	$ 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 Core Equity VIP	.56%	.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 Deutsche Core Equity VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

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

— In September 2014, 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 counsel to discuss contract review and other matters. In addition, the Independent Trustees were 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 ("DB"), 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 Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's 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 market index 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 a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 1st 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-, three- and five-year periods ended December 31, 2013.

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, 2013). 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, 2013) ("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 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 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 information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it manages an institutional account comparable to the Fund, but does not manage any comparable Deutsche Europe funds. The Board took note of the differences in services provided to Deutsche U.S. mutual funds ("Deutsche Funds") as compared to institutional accounts and that such differences made comparison difficult.

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 Deutsche 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 DIMA 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.

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 Deutsche 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 DIMA's 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 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

VS1coreq-3 (R-028376-4 8/15)

Deutsche Asset
& Wealth Management

June 30, 2015

Semiannual Report

Deutsche Variable Series I

Deutsche CROCI® International VIP

(formerly Deutsche International VIP)

Contents

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

Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Emerging markets tend to be more volatile than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. Stocks may decline in value. The Fund will be managed on the premise that stocks with lower CROCI® Economic P/E Ratios may outperform stocks with higher CROCI® Economic P/E Ratios over time. This premise may not always be correct and prospective investors should evaluate this assumption prior to investing in the Fund. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. The Fund may lend securities to approved institutions. See the prospectus for details.

Performance Summary

June 30, 2015 (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, 2015 are 1.04% and 1.31% 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

Yearly periods ended June 30

MSCI EAFE Index is an unmanaged index that tracks international stock performance in the 21 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 CROCI® International VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,628	$9,200	$12,913	$13,702	$13,378
	Average annual total return	6.28%	–8.00%	8.90%	6.50%	2.95%
MSCI EAFE® Index	Growth of $10,000	$10,552	$9,578	$14,039	$15,770	$16,474
	Average annual total return	5.52%	–4.22%	11.97%	9.54%	5.12%

Deutsche CROCI® International VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,627	$9,191	$12,838	$13,546	$13,027
	Average annual total return	6.27%	–8.09%	8.69%	6.26%	2.68%
MSCI EAFE® Index	Growth of $10,000	$10,552	$9,578	$14,039	$15,770	$16,474
	Average annual total return	5.52%	–4.22%	11.97%	9.54%	5.12%

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)	**6/30/15**	**12/31/14**
Common Stocks	97%	99%
Cash Equivalents	3%	1%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/15**	**12/31/14**
Continental Europe	42%	44%
United Kingdom	23%	24%
Japan	23%	21%
Asia (excluding Japan)	6%	6%
Australia	6%	5%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/15**	**12/31/14**
Materials	27%	23%
Industrials	22%	14%
Consumer Discretionary	16%	17%
Utilities	16%	10%
Health Care	10%	14%
Energy	7%	13%
Information Technology	2%	5%
Consumer Staples	—	2%
Telecommunication Services	—	2%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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 96.4%		
Australia 5.6%		
BHP Billiton Ltd.	106,673	2,186,162
Origin Energy Ltd.	266,029	2,510,393
South32 Ltd.*	106,673	147,324
Woodside Petroleum Ltd.	96,805	2,563,467
(Cost $9,970,393)		**7,407,346**
Austria 1.7%		
OMV AG (Cost $3,357,604)	84,021	**2,315,894**
Denmark 1.9%		
A P Moller-Maersk AS "B" (Cost $3,134,665)	1,370	**2,483,157**
Finland 1.8%		
Fortum Oyj (Cost $2,880,400)	136,799	**2,428,999**
France 7.5%		
Electricite de France SA	109,129	2,434,455
GDF Suez	128,315	2,380,460
Kering	14,670	2,615,250
Sanofi	25,721	2,519,793
(Cost $11,344,419)		**9,949,958**
Germany 7.9%		
Continental AG	10,870	2,573,368
E.ON SE	169,896	2,265,317
K+S AG (Registered)	77,806	3,292,908
Siemens AG (Registered)	24,543	2,471,422
(Cost $11,004,817)		**10,603,015**
Hong Kong 2.0%		
CLP Holdings Ltd. (Cost $2,497,728)	309,800	**2,634,691**
Japan 22.2%		
Asahi Kasei Corp.	282,000	2,322,285
Bridgestone Corp.	64,300	2,384,979
Daiichi Sankyo Co., Ltd. (a)	153,000	2,835,838
Denso Corp.	56,300	2,813,707
JGC Corp.	134,000	2,536,211
Mitsui & Co., Ltd.	195,600	2,662,648
Nitto Denko Corp.	41,800	3,446,042
Otsuka Holdings Co., Ltd.	78,400	2,506,329
Sekisui House Ltd.	172,400	2,744,951
Sumitomo Metal Mining Co., Ltd.	185,000	2,825,093
Toyota Industries Corp.	44,400	2,540,939
(Cost $26,238,738)		**29,619,022**
Luxembourg 3.6%		
ArcelorMittal (a)	253,383	2,452,352
Tenaris SA	170,069	2,298,447
(Cost $6,294,725)		**4,750,799**
Netherlands 2.1%		
Koninklijke DSM NV (Cost $3,321,008)	48,115	**2,792,070**

	Shares	Value ($)
Singapore 3.6%		
Keppel Corp., Ltd.	402,700	2,459,011
Singapore Airlines Ltd.	299,200	2,386,255
(Cost $5,756,413)		**4,845,266**
Spain 1.9%		
Gas Natural SDG SA (Cost $2,765,793)	112,463	**2,549,412**
Sweden 1.8%		
Telefonaktiebolaget LM Ericsson "B" (Cost $2,844,774)	238,056	**2,463,437**
Switzerland 10.1%		
ABB Ltd. (Registered)*	123,403	2,580,003
Roche Holding AG (Genusschein)	9,322	2,613,707
Sika AG (Bearer)*	779	2,746,400
Swatch Group AG (Bearer)	6,101	2,374,251
Syngenta AG (Registered)	7,856	3,193,740
(Cost $13,577,805)		**13,508,101**
United Kingdom 22.7%		
Anglo American PLC	162,308	2,342,675
Antofagasta PLC	221,804	2,400,320
Burberry Group PLC	99,393	2,448,408
Centrica PLC	665,576	2,764,462
easyJet PLC	97,129	2,364,052
GlaxoSmithKline PLC	114,665	2,386,140
Rexam PLC	306,427	2,656,641
Rio Tinto PLC	59,425	2,432,780
Rolls-Royce Holdings PLC	169,930	2,320,413
Smiths Group PLC	155,880	2,764,528
SSE PLC	112,788	2,719,149
The Weir Group PLC	101,305	2,696,594
(Cost $35,039,998)		**30,296,162**
Total Common Stocks (Cost $140,029,280)		**128,647,329**

Securities Lending Collateral 3.3%

Daily Assets Fund Institutional, 0.16% (b) (c) (Cost $4,329,999)	4,329,999	**4,329,999**

Cash Equivalents 3.3%

Central Cash Management Fund, 0.09% (b) (Cost $4,451,561)	4,451,561	**4,451,561**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $148,810,840)†	103.0	**137,428,889**
Other Assets and Liabilities, Net	(3.0)	**(4,000,803)**
Net Assets	100.0	**133,428,086**

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

* Non-income producing security.

† The cost for federal income tax purposes was $149,156,954. At June 30, 2015, net unrealized depreciation for all securities based on tax cost was $11,728,065. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $5,255,734 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $16,983,799.

(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, 2015 amounted to $4,029,622, which is 3.0% 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.

As of June 30, 2015, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	49,854	JPY	6,100,000	7/31/2015	8	Citigroup, Inc.
CHF	12,917,000	USD	13,856,617	7/31/2015	24,187	Citigroup, Inc.
EUR	32,300,000	USD	36,170,541	7/31/2015	146,042	Citigroup, Inc.
GBP	19,895,000	USD	31,313,974	7/31/2015	60,101	Citigroup, Inc.
SGD	6,539,000	USD	4,852,733	7/31/2015	79	Goldman Sachs & Co.
DKK	17,013,000	USD	2,554,709	7/31/2015	10,157	Goldman Sachs & Co.
SEK	21,523,000	USD	2,605,347	7/31/2015	7,395	Goldman Sachs & Co.
Total unrealized appreciation					**247,969**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
AUD	10,019,000	USD	7,691,767	7/31/2015	(24,468)	Goldman Sachs & Co.
HKD	20,335,000	USD	2,623,060	7/31/2015	(212)	Goldman Sachs & Co.
JPY	3,736,706,000	USD	30,282,033	7/31/2015	(261,958)	Citigroup, Inc.
Total unrealized depreciation					**(286,638)**	

Currency Abbreviations

AUD	Australian Dollar	HKD	Hong Kong Dollar
CHF	Swiss Franc	JPY	Japanese Yen
DKK	Danish Krone	SEK	Swedish Krona
EUR	Euro	SGD	Singapore Dollar
GBP	British Pound	USD	United States Dollar

For information on the Fund's policy and additional disclosures regarding forward foreign currency exchange 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, 2015 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	$ —	$ 7,407,346	$ —	$ 7,407,346
Austria	—	2,315,894	—	2,315,894
Denmark	—	2,483,157	—	2,483,157
Finland	—	2,428,999	—	2,428,999
France	—	9,949,958	—	9,949,958
Germany	—	10,603,015	—	10,603,015
Hong Kong	—	2,634,691	—	2,634,691
Japan	—	29,619,022	—	29,619,022
Luxembourg	—	4,750,799	—	4,750,799
Netherlands	—	2,792,070	—	2,792,070
Singapore	—	4,845,266	—	4,845,266
Spain	—	2,549,412	—	2,549,412
Sweden	—	2,463,437	—	2,463,437
Switzerland	—	13,508,101	—	13,508,101
United Kingdom	—	30,296,162	—	30,296,162
Short-Term Investments (d)	8,781,560	—	—	8,781,560
Derivatives (e)				
Forward Foreign Currency Exchange Contracts	—	247,969	—	247,969
Total	**$ 8,781,560**	**$128,895,298**	**$ —**	**$137,676,858**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (e)				
Forward Foreign Currency Exchange Contracts	$ —	$ (286,638)	$ —	$ (286,638)
Total	**$ —**	**$ (286,638)**	**$ —**	**$ (286,638)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2015.

(d) See Investment Portfolio for additional detailed categorizations.

(e) Derivatives include unrealized appreciation (depreciation) on forward foreign currency exchange contracts.

Statement of Assets and Liabilities

as of June 30, 2015 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $140,029,280) — including $4,029,622 of securities loaned	$	128,647,329
Investment in Daily Assets Fund Institutional (cost $4,329,999)*		4,329,999
Investment in Central Cash Management Fund (cost $4,451,561)		4,451,561
Total investments, at value (cost $148,810,840)		137,428,889
Cash		134
Foreign currency, at value (cost $57,379)		56,058
Receivable for investments sold		41,291
Receivable for Fund shares sold		9,567
Dividends receivable		87,917
Interest receivable		6,558
Unrealized appreciation on forward foreign currency exchange contracts		247,969
Foreign taxes recoverable		469,789
Other assets		1,490
Total assets		138,349,662

Liabilities		
Payable upon return of securities loaned		4,329,999
Payable for Fund shares redeemed		123,051
Unrealized depreciation on forward foreign currency exchange contracts		286,638
Accrued management fee		85,574
Accrued Trustees' fees		1,490
Other accrued expenses and payables		94,824
Total liabilities		4,921,576
Net assets, at value	**$**	**133,428,086**

Net Assets Consist of		
Undistributed net investment income		2,323,775
Net unrealized appreciation (depreciation) on:		
Investments		(11,381,951)
Foreign currency		(37,540)
Accumulated net realized gain (loss)		(106,019,866)
Paid-in capital		248,543,668
Net assets, at value	**$**	**133,428,086**
Class A		
Net Asset Value, offering and redemption price per share ($133,123,013 ÷ 16,542,928 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**8.05**
Class B		
Net Asset Value, offering and redemption price per share ($305,073 ÷ 37,806 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**8.07**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2015 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $286,929)	$	3,201,752
Income distributions — Central Cash Management Fund		970
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		62,334
Total income		3,265,056
Expenses:		
Management fee		521,822
Administration fee		66,053
Services to shareholders		1,632
Distribution service fee (Class B)		379
Custodian fee		22,634
Professional fees		36,984
Reports to shareholders		26,278
Trustees' fees and expenses		3,772
Other		13,172
Total expenses before expense reductions		692,726
Expense reductions		(38,418)
Total expenses after expense reductions		654,308
Net investment income (loss)		**2,610,748**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(2,582,208)
Foreign currency		2,295,105
		(287,103)
Change in net unrealized appreciation (depreciation) on:		
Investments		5,687,376
Foreign currency		(15,349)
		5,672,027
Net gain (loss)		**5,384,924**
Net increase (decrease) in net assets resulting from operations	**$**	**7,995,672**

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, 2015 (Unaudited)	Year Ended December 31, 2014
Operations:		
Net investment income (loss)	$ 2,610,748	$ 5,060,784
Net realized gain (loss)	(287,103)	21,737,659
Change in net unrealized appreciation (depreciation)	5,672,027	(43,796,669)
Net increase (decrease) in net assets resulting from operations	7,995,672	(16,998,226)
Distributions to shareholders from:		
Net investment income:		
Class A	(5,221,184)	(2,472,725)
Class B	(11,210)	(4,273)
Total distributions	(5,232,394)	(2,476,998)
Fund share transactions:		
Class A		
Proceeds from shares sold	8,289,662	8,496,800
Reinvestment of distributions	5,221,184	2,472,725
Payments for shares redeemed	(8,706,950)	(17,182,817)
Net increase (decrease) in net assets from Class A share transactions	4,803,896	(6,213,292)
Class B		
Proceeds from shares sold	38,037	15,844
Reinvestment of distributions	11,210	4,273
Payments for shares redeemed	(15,642)	(21,212)
Net increase (decrease) in net assets from Class B share transactions	33,605	(1,095)
Increase (decrease) in net assets	7,600,779	(25,689,611)
Net assets at beginning of period	125,827,307	151,516,918
Net assets at end of period (including undistributed net investment income of $2,323,775 and $4,945,421, respectively)	**$ 133,428,086**	**$ 125,827,307**

Other Information		
Class A		
Shares outstanding at beginning of period	15,973,456	16,697,511
Shares sold	1,009,730	980,337
Shares issued to shareholders in reinvestment of distributions	624,543	279,089
Shares redeemed	(1,064,801)	(1,983,481)
Net increase (decrease) in Class A shares	569,472	(724,055)
Shares outstanding at end of period	**16,542,928**	**15,973,456**
Class B		
Shares outstanding at beginning of period	33,566	33,679
Shares sold	4,829	1,824
Shares issued to shareholders in reinvestment of distributions	1,336	481
Shares redeemed	(1,925)	(2,418)
Net increase (decrease) in Class B shares	4,240	(113)
Shares outstanding at end of period	**37,806**	**33,566**

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

Financial Highlights

Class A	Six Months Ended 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$ 7.86**	**$ 9.06**	**$ 7.96**	**$ 6.74**	**$ 8.22**	**$ 8.26**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.16	.31[b]	.14	.22	.15	.13
Net realized and unrealized gain (loss)	.36	(1.36)	1.41	1.16	(1.49)	(.00)***
Total from investment operations	.52	(1.05)	1.55	1.38	(1.34)	.13
Less distributions from:						
Net investment income	(.33)	(.15)	(.45)	(.16)	(.14)	(.17)
Net asset value, end of period	**$ 8.05**	**$ 7.86**	**$ 9.06**	**$ 7.96**	**$ 6.74**	**$ 8.22**
Total Return (%)	6.28[c]**	(11.76)[c]	20.23[c]	20.65	(16.67)	1.62[c]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	133	126	151	230	211	288
Ratio of expenses before expense reductions (%)	1.05*	1.04	1.02	.98	1.00	.99
Ratio of expenses after expense reductions (%)	.99*	.98	1.01	.98	1.00	.99
Ratio of net investment income (loss) (%)	3.95*	3.55[b]	1.64	2.99	1.98	1.68
Portfolio turnover rate (%)	39**	135	97	85	174	228

a Based on average shares outstanding during the period.

b Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.08 per share and 0.95% of average daily net assets, for the year ended December 31, 2014.

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

* Annualized

** Not annualized

*** Amount is less than $.005.

Class B	Six Months Ended 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$ 7.87**	**$ 9.07**	**$ 7.96**	**$ 6.75**	**$ 8.22**	**$ 8.26**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.15	.28[b]	.13	.20	.13	.11
Net realized and unrealized gain (loss)	.36	(1.35)	1.41	1.15	(1.48)	(.00)***
Total from investment operations	.51	(1.07)	1.54	1.35	(1.35)	.11
Less distributions from:						
Net investment income	(.31)	(.13)	(.43)	(.14)	(.12)	(.15)
Net asset value, end of period	**$ 8.07**	**$ 7.87**	**$ 9.07**	**$ 7.96**	**$ 6.75**	**$ 8.22**
Total Return (%)	6.27[c]**	(11.98)[c]	20.01[c]	20.13	(16.77)	1.33[c]
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	.31	.26	.31	.28	.24	.36
Ratio of expenses before expense reductions (%)	1.32*	1.31	1.30	1.26	1.28	1.26
Ratio of expenses after expense reductions (%)	1.24*	1.23	1.27	1.26	1.28	1.26
Ratio of net investment income (loss) (%)	3.72*	3.26[b]	1.62	2.73	1.70	1.41
Portfolio turnover rate (%)	39**	135	97	85	174	228

a Based on average shares outstanding during the period.

b Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.08 per share and 0.95% of average daily net assets, for the year ended December 31, 2014.

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

* Annualized

** Not annualized

*** Amount is less than $.005.

A. Organization and Significant Accounting Policies

Deutsche 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 Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® International VIP (formerly Deutsche International VIP) and Deutsche Global Small Cap VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on Deutsche CROCI® 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.

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

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Trustees and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors 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, 2015, 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, 2014, the Fund had a net tax basis capital loss carryforward of approximately $105,624,000 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 ($6,802,000) and December 31, 2017 ($98,822,000), the respective expiration dates, whichever occurs first.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 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

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, 2015, 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.

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, 2015 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2015, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from $0 to approximately $131,951,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from $0 to approximately $50,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2015 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	Forward Contracts
Foreign Exchange Contracts (a)	$ 247,969

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

(a) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivatives	Forward Contracts
Foreign Exchange Contracts (a)	$ (286,638)

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

(a) Unrealized depreciation on forward foreign currency exchange contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 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
Foreign Exchange Contracts (a)	$ 2,266,766

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

(a) 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
Foreign Exchange Contracts (a)	$ (38,669)

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

(a) 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, 2015, 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 counterparty, 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
Citigroup, Inc.	$ 230,338	$ (230,338)	$ —	$ —
Goldman Sachs & Co.	17,631	(17,631)	—	—
	$ 247,969	**$ (247,969)**	**$ —**	**$ —**

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
Citigroup, Inc.	$ 261,958	$ (230,338)	$ —	$ 31,620
Goldman Sachs & Co.	24,680	(17,631)	—	7,049
	$ 286,638	**$ (247,969)**	**$ —**	**$ 38,669**

C. Purchases and Sales of Securities

During the six months ended June 30, 2015, purchases and sales of investment securities (excluding short-term investments) aggregated $51,964,150 and $50,818,088, 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, 2015, 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, 2015 through April 30, 2016, 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 total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.99%
Class B	1.24%

For the six months ended June 30, 2015, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$	38,291
Class B		127
	$	**38,418**

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, 2015, the Administration Fee was $66,053, of which $11,334 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, 2015, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders		Total Aggregated		Unpaid at June 30, 2015
Class A	$	325	$	175
Class B		40		20
	$	**365**	**$**	**195**

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, 2015, the Distribution Service Fee aggregated $379, of which $66 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $7,994, of which $7,088 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 1940 Act, 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, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $5,416.

E. Ownership of the Fund

At June 30, 2015, four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 30%, 12%, 11% and 10%, respectively. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, owning 82% and 11%, respectively.

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 the one-month 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, 2015.

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, 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, 2015 to June 30, 2015).

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, 2015

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$1,062.80	$1,062.70
Expenses Paid per $1,000*	$ 5.06	$ 6.34

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$1,019.89	$1,018.65
Expenses Paid per $1,000*	$ 4.96	$ 6.21

* 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 I — Deutsche CROCI® International VIP	.99%	1.24%

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

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

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 Deutsche CROCI® International VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

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

— In September 2014, 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 counsel to discuss contract review and other matters. In addition, the Independent Trustees were 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 ("DB"), 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 Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's 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 market index 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 a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, 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 underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2013. 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 the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche 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, 2013). 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, 2013) ("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 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 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 information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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 Deutsche U.S. mutual funds ("Deutsche 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 DIMA 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.

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 Deutsche 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 DIMA's 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 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

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

Deutsche Asset
& Wealth Management

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

VS1cint-3 (R-028378-4 8/15)

Deutsche Asset
& Wealth Management

June 30, 2015

Semiannual Report

Deutsche Investments VIT Funds

Deutsche 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.

Stocks may decline in value. Various factors, including costs, cash flows and security selection, may cause the Fund's performance to differ from that of the index. 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

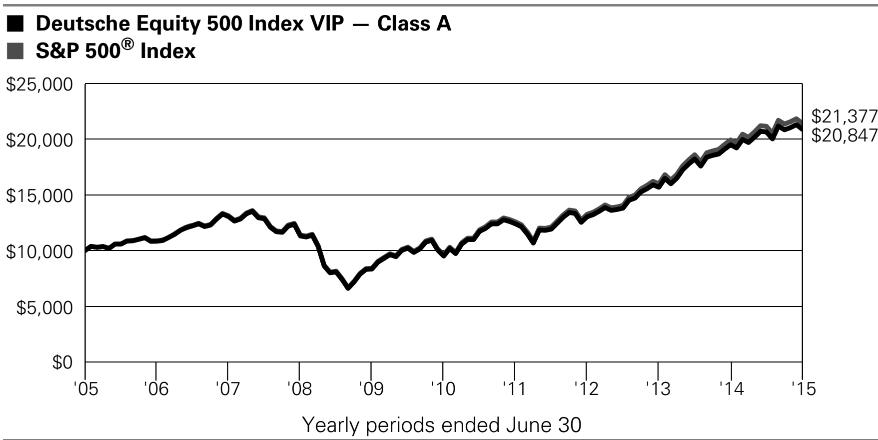
Performance Summary

June 30, 2015 (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, 2015 are 0.34%, 0.62% 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, 2015)

Deutsche Equity 500 Index VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,108	$10,711	$16,006	$21,928	$20,847
	Average annual total return	1.08%	7.11%	16.97%	17.00%	7.62%
S&P 500 Index	Growth of $10,000	$10,123	$10,742	$16,143	$22,247	$21,377
	Average annual total return	1.23%	7.42%	17.31%	17.34%	7.89%

Deutsche Equity 500 Index VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,097	$10,683	$15,888	$21,652	$20,346
	Average annual total return	0.97%	6.83%	16.69%	16.71%	7.36%
S&P 500 Index	Growth of $10,000	$10,123	$10,742	$16,143	$22,247	$21,377
	Average annual total return	1.23%	7.42%	17.31%	17.34%	7.89%

Deutsche Equity 500 Index VIP		6-Month‡	1-Year	3-Year	5-Year	Life of Class*
Class B2	Growth of $10,000	$10,092	$10,678	$15,834	$21,513	$19,280
	Average annual total return	0.92%	6.78%	16.55%	16.56%	6.94%
S&P 500 Index	Growth of $10,000	$10,123	$10,742	$16,143	$22,247	$21,377
	Average annual total return	1.23%	7.42%	17.31%	17.34%	7.89%

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, 2015, which is based on the performance period of the life of Class B2.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/15**	**12/31/14**
Common Stocks	99%	99%
Cash Equivalents	1%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/15**	**12/31/14**
Information Technology	20%	20%
Financials	17%	17%
Health Care	15%	14%
Consumer Discretionary	13%	12%
Industrials	10%	10%
Consumer Staples	9%	10%
Energy	8%	9%
Materials	3%	3%
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	**3.9%**
2.	**Microsoft Corp.** Develops, manufactures, licenses, sells and supports software products	**1.9%**
3.	**Exxon Mobil Corp.** Explorer and producer of oil and gas	**1.9%**
4.	**Google, Inc.** Provides a Web-based search engine for the Internet	**1.6%**
5.	**Johnson & Johnson** Provider of health care products	**1.5%**
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.	**JPMorgan Chase & Co.** Provider of global financial services	**1.4%**
9.	**Berkshire Hathaway, Inc.** Holding company of insurance business and a variety of other businesses	**1.3%**
10.	**Procter & Gamble Co.** Manufacturer of diversified consumer products	**1.2%**

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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 98.8%		
Consumer Discretionary 12.6%		
Auto Components 0.4%		
BorgWarner, Inc.	7,621	433,178
Delphi Automotive PLC	9,729	827,841
Goodyear Tire & Rubber Co.	9,248	278,827
Johnson Controls, Inc.	22,059	1,092,582
		2,632,428
Automobiles 0.6%		
Ford Motor Co.	133,920	2,010,139
General Motors Co.	45,493	1,516,282
Harley-Davidson, Inc.	7,012	395,126
		3,921,547
Distributors 0.1%		
Genuine Parts Co.	5,167	**462,601**
Diversified Consumer Services 0.1%		
H&R Block, Inc.	9,330	**276,634**
Hotels, Restaurants & Leisure 1.7%		
Carnival Corp.	15,176	749,543
Chipotle Mexican Grill, Inc.*	1,041	629,794
Darden Restaurants, Inc.	4,271	303,583
Marriott International, Inc. "A"	6,941	516,341
McDonald's Corp.	32,300	3,070,761
Royal Caribbean Cruises Ltd.	5,555	437,123
Starbucks Corp.	50,561	2,710,828
Starwood Hotels & Resorts Worldwide, Inc.	5,756	466,754
Wyndham Worldwide Corp.	4,114	336,978
Wynn Resorts Ltd.	2,807	276,967
Yum! Brands, Inc.	14,569	1,312,375
		10,811,047
Household Durables 0.4%		
D.R. Horton, Inc.	11,169	305,584
Garmin Ltd. (a)	4,174	183,364
Harman International Industries, Inc.	2,432	289,262
Leggett & Platt, Inc.	4,588	223,344
Lennar Corp. "A"	5,968	304,607
Mohawk Industries, Inc.*	2,087	398,408
Newell Rubbermaid, Inc.	9,176	377,225
PulteGroup, Inc.	10,927	220,179
Whirlpool Corp.	2,657	459,794
		2,761,767
Internet & Catalog Retail 1.6%		
Amazon.com, Inc.*	12,869	5,586,304
Expedia, Inc.	3,352	366,541
Netflix, Inc.*	2,043	1,342,129
The Priceline Group, Inc.*	1,747	2,011,443
TripAdvisor, Inc.* (a)	3,798	330,958
		9,637,375
Leisure Products 0.1%		
Hasbro, Inc. (a)	3,751	280,537
Mattel, Inc.	11,287	289,963
		570,500
Media 3.6%		
Cablevision Systems Corp. (New York Group) "A" (a)	7,460	178,592
CBS Corp. "B"	15,248	846,264
Comcast Corp. "A"	84,689	5,093,197
DIRECTV*	16,938	1,571,677
Discovery Communications, Inc. "A"* (a)	5,163	171,721
Discovery Communications, Inc. "C"*	8,843	274,841
Gannett Co., Inc.*	3,858	53,967
Interpublic Group of Companies, Inc.	13,738	264,731
News Corp. "A"*	16,916	246,805
Omnicom Group, Inc.	8,223	571,416
Scripps Networks Interactive, Inc. "A"	3,256	212,845
TEGNA, Inc.	7,715	247,420
Time Warner Cable, Inc.	9,525	1,697,069
Time Warner, Inc.	27,780	2,428,250
Twenty-First Century Fox, Inc. "A"	59,608	1,939,942
Viacom, Inc. "B"	12,011	776,391
Walt Disney Co.	52,603	6,004,106
		22,579,234
Multiline Retail 0.8%		
Dollar General Corp.	10,012	778,333
Dollar Tree, Inc.*	6,999	552,851
Family Dollar Stores, Inc.	3,242	255,502
Kohl's Corp. (a)	6,569	411,285
Macy's, Inc.	11,333	764,638
Nordstrom, Inc.	4,719	351,565
Target Corp.	21,517	1,756,433
		4,870,607
Specialty Retail 2.3%		
AutoNation, Inc.*	2,519	158,647
AutoZone, Inc.*	1,079	719,585
Bed Bath & Beyond, Inc.* (a)	5,795	399,739
Best Buy Co., Inc.	9,777	318,828
CarMax, Inc.*	7,045	466,449
GameStop Corp. "A" (a)	3,525	151,434
Home Depot, Inc.	43,771	4,864,271
L Brands, Inc.	8,260	708,130
Lowe's Companies, Inc.	31,425	2,104,532
O'Reilly Automotive, Inc.* (a)	3,402	768,784
Ross Stores, Inc.	13,939	677,575
Staples, Inc.	21,950	336,055
The Gap, Inc.	8,968	342,309
Tiffany & Co.	3,750	344,250
TJX Companies, Inc.	22,925	1,516,947
Tractor Supply Co.	4,614	414,983
Urban Outfitters, Inc.*	3,188	111,580
		14,404,098
Textiles, Apparel & Luxury Goods 0.9%		
Coach, Inc. (a)	9,192	318,135
Fossil Group, Inc.* (a)	1,417	98,283
Hanesbrands, Inc.	13,435	447,654
Michael Kors Holdings Ltd.*	6,669	280,698
NIKE, Inc. "B"	23,487	2,537,066
PVH Corp. (a)	2,794	321,869
Ralph Lauren Corp.	2,067	273,588

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

	Shares	Value ($)
Under Armour, Inc. "A"* (a)	5,687	474,524
VF Corp.	11,473	800,127
		5,551,944
Consumer Staples 9.3%		
Beverages 2.1%		
Brown-Forman Corp. "B"	5,244	525,344
Coca-Cola Co.	132,179	5,185,382
Coca-Cola Enterprises, Inc.	7,289	316,634
Constellation Brands, Inc. "A"	5,664	657,137
Dr. Pepper Snapple Group, Inc.	6,455	470,570
Molson Coors Brewing Co. "B"	5,452	380,604
Monster Beverage Corp.*	4,929	660,585
PepsiCo, Inc.	49,733	4,642,078
		12,838,334
Food & Staples Retailing 2.4%		
Costco Wholesale Corp.	14,805	1,999,563
CVS Health Corp.	38,011	3,986,593
Kroger Co.	16,512	1,197,285
Sysco Corp.	19,987	721,531
Wal-Mart Stores, Inc.	53,172	3,771,490
Walgreens Boots Alliance, Inc.	29,402	2,482,705
Whole Foods Market, Inc.	12,213	481,681
		14,640,848
Food Products 1.6%		
Archer-Daniels-Midland Co.	20,894	1,007,509
Campbell Soup Co. (a)	6,071	289,283
ConAgra Foods, Inc.	14,511	634,421
General Mills, Inc.	20,059	1,117,687
Hormel Foods Corp.	4,569	257,555
Kellogg Co.	8,515	533,890
Keurig Green Mountain, Inc.	3,947	302,459
Kraft Foods Group, Inc.	19,959	1,699,309
McCormick & Co., Inc. (a)	4,323	349,947
Mead Johnson Nutrition Co.	6,758	609,707
Mondelez International, Inc. "A"	54,800	2,254,472
The Hershey Co.	4,939	438,731
The JM Smucker Co.	3,256	352,983
Tyson Foods, Inc. "A"	9,727	414,662
		10,262,615
Household Products 1.7%		
Clorox Co. (a)	4,472	465,177
Colgate-Palmolive Co.	28,656	1,874,389
Kimberly-Clark Corp.	12,268	1,300,040
Procter & Gamble Co.	91,416	7,152,388
		10,791,994
Personal Products 0.1%		
Estee Lauder Companies, Inc. "A"	7,523	**651,943**
Tobacco 1.4%		
Altria Group, Inc.	66,277	3,241,608
Philip Morris International, Inc.	52,206	4,185,355
Reynolds American, Inc.	14,004	1,045,539
		8,472,502
Energy 7.8%		
Energy Equipment & Services 1.3%		
Baker Hughes, Inc.	14,634	902,918
Cameron International Corp.*	6,368	333,492
Diamond Offshore Drilling, Inc. (a)	2,425	62,589
Ensco PLC "A"	8,056	179,407
FMC Technologies, Inc.*	7,668	318,145
Halliburton Co.	28,650	1,233,956
Helmerich & Payne, Inc. (a)	3,678	259,005
National Oilwell Varco, Inc.	13,062	630,633
Noble Corp. PLC	8,059	124,028
Schlumberger Ltd.	42,779	3,687,122
Transocean Ltd. (a)	11,756	189,507
		7,920,802
Oil, Gas & Consumable Fuels 6.5%		
Anadarko Petroleum Corp.	17,110	1,335,607
Apache Corp.	12,697	731,728
Cabot Oil & Gas Corp.	13,825	436,041
Chesapeake Energy Corp. (a)	17,591	196,492
Chevron Corp.	63,366	6,112,918
Cimarex Energy Co.	3,125	344,719
ConocoPhillips	41,532	2,550,480
CONSOL Energy, Inc.	7,781	169,159
Devon Energy Corp.	13,006	773,727
EOG Resources, Inc.	18,493	1,619,062
EQT Corp.	5,206	423,456
Exxon Mobil Corp.	140,899	11,722,797
Hess Corp.	8,223	549,954
Kinder Morgan, Inc.	58,441	2,243,550
Marathon Oil Corp.	22,704	602,564
Marathon Petroleum Corp.	18,304	957,482
Murphy Oil Corp.	5,692	236,616
Newfield Exploration Co.*	5,490	198,299
Noble Energy, Inc.	13,132	560,474
Occidental Petroleum Corp.	25,879	2,012,610
ONEOK, Inc.	7,144	282,045
Phillips 66	18,272	1,471,992
Pioneer Natural Resources Co.	4,986	691,508
Range Resources Corp.	5,484	270,800
Southwestern Energy Co.*	12,909	293,422
Spectra Energy Corp.	22,607	736,988
Tesoro Corp.	4,305	363,385
Valero Energy Corp.	17,137	1,072,776
Williams Companies, Inc.	22,714	1,303,556
		40,264,207
Financials 16.4%		
Banks 6.1%		
Bank of America Corp.	353,883	6,023,089
BB&T Corp.	24,640	993,238
Citigroup, Inc.	102,237	5,647,572
Comerica, Inc.	5,982	306,996
Fifth Third Bancorp.	27,287	568,115
Huntington Bancshares, Inc.	27,243	308,118
JPMorgan Chase & Co. (a)	125,056	8,473,795
KeyCorp	28,227	423,970
M&T Bank Corp. (a)	4,486	560,436
People's United Financial, Inc.	10,182	165,050
PNC Financial Services Group, Inc.	17,457	1,669,762
Regions Financial Corp.	45,708	473,535
SunTrust Banks, Inc.	17,351	746,440
U.S. Bancorp.	59,772	2,594,105
Wells Fargo & Co.	157,931	8,882,039
Zions Bancorp.	6,681	212,022
		38,048,282
Capital Markets 2.3%		
Affiliated Managers Group, Inc.*	1,813	396,322
Ameriprise Financial, Inc.	6,104	762,573
Bank of New York Mellon Corp.	37,760	1,584,787
BlackRock, Inc.	4,275	1,479,064
Charles Schwab Corp.	38,938	1,271,326

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

	Shares	Value ($)
E*TRADE Financial Corp.*	9,739	291,683
Franklin Resources, Inc. (a)	13,010	637,880
Invesco Ltd.	14,410	540,231
Legg Mason, Inc.	3,275	168,761
Morgan Stanley	51,724	2,006,374
Northern Trust Corp.	8,044	615,044
State Street Corp.	13,857	1,066,989
T. Rowe Price Group, Inc.	8,820	685,579
The Goldman Sachs Group, Inc.	13,524	2,823,676
		14,330,289
Consumer Finance 0.8%		
American Express Co.	29,437	2,287,844
Capital One Financial Corp.	18,403	1,618,912
Discover Financial Services	14,904	858,768
Navient Corp.	13,280	241,829
		5,007,353
Diversified Financial Services 2.0%		
Berkshire Hathaway, Inc. "B"*	61,457	8,364,912
CME Group, Inc.	10,692	994,998
Intercontinental Exchange, Inc.	3,765	841,892
Leucadia National Corp.	10,473	254,284
McGraw Hill Financial, Inc.	9,189	923,035
Moody's Corp.	5,997	647,436
The NASDAQ OMX Group, Inc.	4,095	199,877
		12,226,434
Insurance 2.7%		
ACE Ltd.	11,005	1,118,989
Aflac, Inc.	14,621	909,426
Allstate Corp.	13,782	894,038
American International Group, Inc.	44,927	2,777,387
Aon PLC	9,496	946,561
Assurant, Inc.	2,204	147,668
Chubb Corp.	7,698	732,388
Cincinnati Financial Corp.	4,939	247,839
Genworth Financial, Inc. "A"*	16,699	126,412
Hartford Financial Services Group, Inc.	14,244	592,123
Lincoln National Corp.	8,489	502,719
Loews Corp.	9,936	382,635
Marsh & McLennan Companies, Inc.	18,155	1,029,389
MetLife, Inc.	37,591	2,104,720
Principal Financial Group, Inc.	9,294	476,689
Progressive Corp.	17,988	500,606
Prudential Financial, Inc.	15,260	1,335,555
The Travelers Companies, Inc.	10,738	1,037,935
Torchmark Corp.	4,269	248,541
Unum Group	8,492	303,589
XL Group PLC	10,428	387,922
		16,803,131
Real Estate Investment Trusts 2.4%		
American Tower Corp. (REIT)	14,248	1,329,196
Apartment Investment & Management Co. "A" (REIT)	5,143	189,931
AvalonBay Communities, Inc. (REIT)	4,430	708,224
Boston Properties, Inc. (REIT)	5,120	619,725
Crown Castle International Corp. (REIT)	11,361	912,288
Equinix, Inc. (REIT)	1,900	482,600
Equity Residential (REIT)	12,237	858,670
Essex Property Trust, Inc. (REIT)	2,180	463,250
General Growth Properties, Inc. (REIT)	21,114	541,785
HCP, Inc. (REIT)	15,526	566,233
Health Care REIT, Inc. (REIT)	11,797	774,237
Host Hotels & Resorts, Inc. (REIT)	25,490	505,467
Iron Mountain, Inc. (REIT)	6,484	201,004
Kimco Realty Corp. (REIT)	14,023	316,078
Plum Creek Timber Co., Inc. (REIT)	5,994	243,177
Prologis, Inc. (REIT)	17,568	651,773
Public Storage (REIT)	4,884	900,463
Realty Income Corp. (REIT) (a)	7,951	352,945
Simon Property Group, Inc. (REIT)	10,477	1,812,730
SL Green Realty Corp. (REIT)	3,401	373,736
The Macerich Co. (REIT)	4,803	358,304
Ventas, Inc. (REIT)	11,229	697,209
Vornado Realty Trust (REIT)	5,940	563,884
Weyerhaeuser Co. (REIT)	17,650	555,975
		14,978,884
Real Estate Management & Development 0.1%		
CBRE Group, Inc. "A"*	9,494	**351,278**
Thrifts & Mortgage Finance 0.0%		
Hudson City Bancorp., Inc.	16,672	**164,719**
Health Care 15.2%		
Biotechnology 3.2%		
Alexion Pharmaceuticals, Inc.*	7,545	1,363,910
Amgen, Inc.	25,623	3,933,643
Biogen, Inc.*	7,927	3,202,032
Celgene Corp.*	26,730	3,093,597
Gilead Sciences, Inc.	49,526	5,798,504
Regeneron Pharmaceuticals, Inc.*	2,541	1,296,240
Vertex Pharmaceuticals, Inc.*	8,214	1,014,265
		19,702,191
Health Care Equipment & Supplies 2.2%		
Abbott Laboratories	50,174	2,462,540
Baxter International, Inc.	18,337	1,282,306
Becton, Dickinson & Co.	7,054	999,199
Boston Scientific Corp.*	45,176	799,615
C.R. Bard, Inc.	2,515	429,310
DENTSPLY International, Inc.	4,781	246,461
Edwards Lifesciences Corp.*	3,652	520,154
Intuitive Surgical, Inc.*	1,232	596,904
Medtronic PLC	48,019	3,558,208
St. Jude Medical, Inc.	9,522	695,773
Stryker Corp.	10,077	963,059
Varian Medical Systems, Inc.*	3,368	284,023
Zimmer Biomet Holdings, Inc.	5,742	627,199
		13,464,751
Health Care Providers & Services 2.9%		
Aetna, Inc.	11,770	1,500,204
AmerisourceBergen Corp.	7,041	748,740
Anthem, Inc.	8,916	1,463,472
Cardinal Health, Inc.	11,122	930,355
Cigna Corp.	8,674	1,405,188
DaVita HealthCare Partners, Inc.*	5,715	454,171
Express Scripts Holding Co.* (a)	24,580	2,186,145
HCA Holdings, Inc.*	9,775	886,788
Henry Schein, Inc.*	2,818	400,494
Humana, Inc.	5,031	962,330
Laboratory Corp. of America Holdings*	3,332	403,905
McKesson Corp.	7,808	1,755,317

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

	Shares	Value ($)
Patterson Companies, Inc.	2,906	141,377
Quest Diagnostics, Inc.	4,922	356,943
Tenet Healthcare Corp.*	3,403	196,966
UnitedHealth Group, Inc.	32,083	3,914,126
Universal Health Services, Inc. "B"	3,097	440,084
		18,146,605
Health Care Technology 0.1%		
Cerner Corp.* (a)	10,254	**708,141**
Life Sciences Tools & Services 0.4%		
Agilent Technologies, Inc.	11,087	427,736
PerkinElmer, Inc.	3,753	197,558
Thermo Fisher Scientific, Inc.	13,426	1,742,158
Waters Corp.*	2,803	359,849
		2,727,301
Pharmaceuticals 6.4%		
AbbVie, Inc.	57,948	3,893,526
Allergan PLC*	13,224	4,012,955
Bristol-Myers Squibb Co.	56,179	3,738,151
Eli Lilly & Co.	32,910	2,747,656
Endo International PLC*	6,801	541,700
Hospira, Inc.*	5,873	520,994
Johnson & Johnson	93,455	9,108,124
Mallinckrodt PLC*	3,912	460,521
Merck & Co., Inc.	95,212	5,420,419
Mylan NV* (a)	13,871	941,286
Perrigo Co. PLC	4,929	911,027
Pfizer, Inc.	207,519	6,958,112
Zoetis, Inc.	16,850	812,507
		40,066,978

Industrials 10.0%

	Shares	Value ($)
Aerospace & Defense 2.6%		
Boeing Co.	21,674	3,006,617
General Dynamics Corp.	10,526	1,491,429
Honeywell International, Inc.	26,348	2,686,706
L-3 Communications Holdings, Inc.	2,727	309,187
Lockheed Martin Corp.	9,021	1,677,004
Northrop Grumman Corp.	6,530	1,035,854
Precision Castparts Corp.	4,658	930,994
Raytheon Co.	10,281	983,686
Rockwell Collins, Inc.	4,496	415,206
Textron, Inc.	9,410	419,968
United Technologies Corp.	27,900	3,094,947
		16,051,598
Air Freight & Logistics 0.7%		
C.H. Robinson Worldwide, Inc. (a)	4,910	306,335
Expeditors International of Washington, Inc.	6,354	292,951
FedEx Corp.	8,888	1,514,515
United Parcel Service, Inc. "B"	23,395	2,267,210
		4,381,011
Airlines 0.4%		
American Airlines Group, Inc.	23,367	933,161
Delta Air Lines, Inc.	27,745	1,139,765
Southwest Airlines Co.	22,372	740,289
		2,813,215
Building Products 0.1%		
Allegion PLC	3,179	191,185
Masco Corp.	11,666	311,132
		502,317

	Shares	Value ($)
Commercial Services & Supplies 0.4%		
ADT Corp. (a)	5,751	193,061
Cintas Corp.	3,201	270,772
Pitney Bowes, Inc.	6,545	136,201
Republic Services, Inc.	8,533	334,238
Stericycle, Inc.*	2,826	378,430
Tyco International PLC	14,340	551,803
Waste Management, Inc.	14,308	663,176
		2,527,681
Construction & Engineering 0.1%		
Fluor Corp.	4,871	258,212
Jacobs Engineering Group, Inc.*	4,366	177,347
Quanta Services, Inc.*	6,987	201,365
		636,924
Electrical Equipment 0.5%		
AMETEK, Inc.	8,204	449,415
Eaton Corp. PLC	15,750	1,062,968
Emerson Electric Co. (a)	22,539	1,249,337
Rockwell Automation, Inc.	4,516	562,874
		3,324,594
Industrial Conglomerates 2.4%		
3M Co.	21,388	3,300,169
Danaher Corp. (a)	20,766	1,777,362
General Electric Co.	339,555	9,021,976
Roper Technologies, Inc.	3,361	579,638
		14,679,145
Machinery 1.5%		
Caterpillar, Inc.	20,340	1,725,239
Cummins, Inc.	5,652	741,486
Deere & Co. (a)	11,250	1,091,812
Dover Corp.	5,499	385,920
Flowserve Corp.	4,490	236,443
Illinois Tool Works, Inc.	11,389	1,045,396
Ingersoll-Rand PLC	8,923	601,589
Joy Global, Inc. (a)	3,344	121,053
PACCAR, Inc.	11,958	763,040
Pall Corp.	3,623	450,882
Parker-Hannifin Corp.	4,702	546,984
Pentair PLC	6,026	414,287
Snap-on, Inc.	1,966	313,086
Stanley Black & Decker, Inc.	5,127	539,565
Xylem, Inc.	5,952	220,641
		9,197,423
Professional Services 0.2%		
Dun & Bradstreet Corp.	1,228	149,816
Equifax, Inc.	4,039	392,147
Nielsen NV	12,528	560,879
Robert Half International, Inc. (a)	4,643	257,686
		1,360,528
Road & Rail 0.9%		
CSX Corp.	33,295	1,087,082
J.B. Hunt Transport Services, Inc.	3,099	254,397
Kansas City Southern	3,788	345,465
Norfolk Southern Corp.	10,274	897,537
Ryder System, Inc.	1,741	152,111
Union Pacific Corp.	29,509	2,814,273
		5,550,865

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

	Shares	Value ($)
Trading Companies & Distributors 0.2%		
Fastenal Co. (a)	9,137	385,399
United Rentals, Inc.*	3,304	289,496
W.W. Grainger, Inc. (a)	2,027	479,690
		1,154,585
Information Technology 19.4%		
Communications Equipment 1.5%		
Cisco Systems, Inc.	171,447	4,707,935
F5 Networks, Inc.*	2,398	288,599
Harris Corp.	4,093	314,793
Juniper Networks, Inc.	12,011	311,926
Motorola Solutions, Inc.	6,331	363,019
QUALCOMM, Inc.	54,926	3,440,015
		9,426,287
Electronic Equipment, Instruments & Components 0.4%		
Amphenol Corp. "A"	10,305	597,381
Corning, Inc.	42,441	837,361
FLIR Systems, Inc.	4,536	139,799
TE Connectivity Ltd.	13,683	879,817
		2,454,358
Internet Software & Services 3.3%		
Akamai Technologies, Inc.*	5,946	415,150
eBay, Inc.*	37,269	2,245,084
Facebook, Inc. "A"*	70,985	6,088,028
Google, Inc. "A"*	9,647	5,209,766
Google, Inc. "C"*	9,674	5,035,414
VeriSign, Inc.* (a)	3,505	216,329
Yahoo!, Inc.*	29,420	1,155,912
		20,365,683
IT Services 3.3%		
Accenture PLC "A"	21,109	2,042,929
Alliance Data Systems Corp.*	2,106	614,826
Automatic Data Processing, Inc.	15,833	1,270,281
Cognizant Technology Solutions Corp. "A"*	20,575	1,256,927
Computer Sciences Corp.	4,597	301,747
Fidelity National Information Services, Inc.	9,465	584,937
Fiserv, Inc.*	8,029	665,042
International Business Machines Corp.	30,865	5,020,501
MasterCard, Inc. "A"	32,668	3,053,805
Paychex, Inc.	10,939	512,820
Teradata Corp.* (a)	4,797	177,489
Total System Services, Inc.	5,492	229,401
Visa, Inc. "A" (a)	65,148	4,374,688
Western Union Co. (a)	17,502	355,816
Xerox Corp.	35,007	372,474
		20,833,683
Semiconductors & Semiconductor Equipment 2.4%		
Altera Corp.	10,040	514,048
Analog Devices, Inc.	10,581	679,141
Applied Materials, Inc.	41,537	798,341
Avago Technologies Ltd.	8,649	1,149,712
Broadcom Corp. "A"	18,297	942,113
First Solar, Inc.*	2,629	123,510
Intel Corp.	159,902	4,863,419
KLA-Tencor Corp.	5,302	298,025
Lam Research Corp.	5,266	428,389
Linear Technology Corp.	8,075	357,157
Microchip Technology, Inc. (a)	6,802	322,585
Micron Technology, Inc.*	36,130	680,689
NVIDIA Corp.	17,333	348,567
Qorvo, Inc.*	5,088	408,414
Skyworks Solutions, Inc.	6,448	671,237
Texas Instruments, Inc.	35,101	1,808,053
Xilinx, Inc.	8,860	391,258
		14,784,658
Software 3.7%		
Adobe Systems, Inc.*	16,030	1,298,590
Autodesk, Inc.*	7,576	379,368
CA, Inc.	10,618	311,001
Citrix Systems, Inc.*	5,426	380,688
Electronic Arts, Inc.*	10,450	694,925
Intuit, Inc.	9,302	937,363
Microsoft Corp.	272,629	12,036,571
Oracle Corp.	107,461	4,330,678
Red Hat, Inc.*	6,171	468,564
Salesforce.com, Inc.*	20,550	1,430,897
Symantec Corp.	22,948	533,541
		22,802,186
Technology Hardware, Storage & Peripherals 4.8%		
Apple, Inc.	194,160	24,352,518
EMC Corp.	65,539	1,729,574
Hewlett-Packard Co.	60,922	1,828,269
NetApp, Inc.	10,500	331,380
SanDisk Corp.	6,912	402,417
Seagate Technology PLC	10,596	503,310
Western Digital Corp.	7,277	570,662
		29,718,130
Materials 3.1%		
Chemicals 2.3%		
Air Products & Chemicals, Inc.	6,500	889,395
Airgas, Inc.	2,252	238,217
CF Industries Holdings, Inc.	7,865	505,562
Dow Chemical Co.	36,522	1,868,831
E.I. du Pont de Nemours & Co.	30,509	1,951,050
Eastman Chemical Co.	4,951	405,091
Ecolab, Inc.	9,037	1,021,814
FMC Corp.	4,501	236,528
International Flavors & Fragrances, Inc.	2,760	301,640
LyondellBasell Industries NV "A"	13,239	1,370,501
Monsanto Co.	16,046	1,710,343
PPG Industries, Inc.	9,151	1,049,803
Praxair, Inc.	9,721	1,162,145
Sigma-Aldrich Corp.	4,023	560,605
The Mosaic Co.	10,536	493,612
The Sherwin-Williams Co.	2,669	734,028
		14,499,165
Construction Materials 0.1%		
Martin Marietta Materials, Inc. (a)	2,118	299,718
Vulcan Materials Co.	4,480	376,007
		675,725
Containers & Packaging 0.3%		
Avery Dennison Corp.	3,169	193,119
Ball Corp.	4,615	323,742
MeadWestvaco Corp.	11,265	531,595
Owens-Illinois, Inc.*	5,288	121,307
Sealed Air Corp.	7,124	366,031
		1,535,794
Metals & Mining 0.3%		
Alcoa, Inc.	41,165	458,990
Allegheny Technologies, Inc.	3,795	114,609

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

	Shares	Value ($)
Freeport-McMoRan, Inc.	35,041	652,463
Newmont Mining Corp.	17,554	410,062
Nucor Corp.	10,841	477,763
		2,113,887
Paper & Forest Products 0.1%		
International Paper Co.	14,155	**673,636**
Telecommunication Services 2.2%		
Diversified Telecommunication Services		
AT&T, Inc.	174,963	6,214,686
CenturyLink, Inc.	19,158	562,862
Frontier Communications Corp. (a)	39,418	195,119
Level 3 Communications, Inc.*	9,896	521,222
Verizon Communications, Inc.	137,406	6,404,494
		13,898,383
Utilities 2.8%		
Electric Utilities 1.6%		
American Electric Power Co., Inc.	16,562	877,289
Duke Energy Corp.	23,363	1,649,895
Edison International	10,913	606,545
Entergy Corp.	5,990	422,295
Eversource Energy	10,601	481,391
Exelon Corp.	29,021	911,840
FirstEnergy Corp.	14,047	457,230
NextEra Energy, Inc.	15,006	1,471,038
Pepco Holdings, Inc.	8,443	227,455
Pinnacle West Capital Corp.	3,728	212,086
PPL Corp.	22,394	659,951
Southern Co.	30,703	1,286,456
Xcel Energy, Inc.	17,246	554,976
		9,818,447
Gas Utilities 0.0%		
AGL Resources, Inc.	3,930	**182,981**
Independent Power & Renewable Eletricity Producers 0.1%		
AES Corp.	22,634	300,127
NRG Energy, Inc.	11,222	256,759
		556,886
Multi-Utilities 1.1%		
Ameren Corp.	8,305	312,932
CenterPoint Energy, Inc.	14,705	279,836
CMS Energy Corp.	9,428	300,188
Consolidated Edison, Inc.	9,963	576,658
Dominion Resources, Inc.	20,039	1,340,008
DTE Energy Co.	6,116	456,498
NiSource, Inc.	10,558	481,339
PG&E Corp.	16,176	794,242
Public Service Enterprise Group, Inc.	17,016	668,389
SCANA Corp. (a)	4,742	240,182
Sempra Energy	7,813	773,018
TECO Energy, Inc.	8,133	143,629
WEC Energy Group, Inc.	10,465	470,596
		6,837,515
Total Common Stocks (Cost $361,248,257)		**614,406,654**

	Principal Amount ($)	Value ($)
Government & Agency Obligation 0.1%		
U.S. Treasury Obligation		
U.S. Treasury Bill, 0.045%**, 10/8/2015 (b) (Cost $399,951)	400,000	**399,986**

	Shares	Value ($)
Securities Lending Collateral 4.6%		
Daily Assets Fund Institutional, 0.16% (c) (d) (Cost $28,829,403)	28,829,403	**28,829,403**
Cash Equivalents 1.2%		
Central Cash Management Fund, 0.09% (c) (Cost $7,220,855)	7,220,855	**7,220,855**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $397,698,466)†	104.7	**650,856,898**
Other Assets and Liabilities, Net	(4.7)	**(29,072,028)**
Net Assets	100.0	**621,784,870**

* Non-income producing security.

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

† The cost for federal income tax purposes was $410,286,645. At June 30, 2015, net unrealized appreciation for all securities based on tax cost was $240,570,253. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $263,894,113 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $23,323,860.

(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, 2015 amounted to $28,024,417, which is 4.5% of net assets.

(b) At June 30, 2015, 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, 2015, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
S&P 500 E-Mini Index	USD	9/18/2015	77	7,909,440	**(126,209)**

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, 2015 in valuing the Fund's investments.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks (e)	$614,406,654	$ —	$ —	$614,406,654
Government & Agency Obligation	—	399,986	—	399,986
Short-Term Investments (e)	36,050,258	—	—	36,050,258
Total	**$650,456,912**	**$ 399,986**	**$ —**	**$650,856,898**

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives (f)				
Futures Contracts	$ (126,209)	$ —	$ —	$ (126,209)
Total	**$ (126,209)**	**$ —**	**$ —**	**$ (126,209)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2015.

(e) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of June 30, 2015 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $361,648,208) — including $28,024,417 of securities loaned	$	614,806,640
Investment in Daily Assets Fund Institutional (cost $28,829,403)*		28,829,403
Investment in Central Cash Management Fund (cost $7,220,855)		7,220,855
Total investments in securities, at value (cost $397,698,466)		650,856,898
Cash		46,116
Receivable for investments sold		119,220
Receivable for Fund shares sold		26,892
Dividends receivable		717,178
Interest receivable		3,812
Receivable for variation margin on futures contracts		15,582
Foreign taxes recoverable		426
Other assets		4,483
Total assets	$	651,790,607
Liabilities		
Payable upon return of securities loaned		28,829,403
Payable for investments purchased		523,412
Payable for Fund shares redeemed		392,727
Accrued management fee		101,622
Accrued Trustees' fees		2,445
Other accrued expenses and payables		156,128
Total liabilities		30,005,737
Net assets, at value	**$**	**621,784,870**
Net Assets Consist of		
Undistributed net investment income		5,486,384
Net unrealized appreciation (depreciation) on:		
Investments		253,158,432
Futures		(126,209)
Accumulated net realized gain (loss)		2,154,448
Paid-in capital		361,111,815
Net assets, at value	**$**	**621,784,870**
Class A		
Net Asset Value, offering and redemption price per share ($592,619,031 ÷ 30,559,548 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**19.39**
Class B		
Net Asset Value, offering and redemption price per share ($11,332,474 ÷ 583,739 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**19.41**
Class B2		
Net Asset Value, offering and redemption price per share ($17,833,365 ÷ 918,346 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**19.42**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2015 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $1,277)	$	6,579,678
Interest		97
Income distributions — Central Cash Management Fund		1,736
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		25,313
Total income		6,606,824
Expenses:		
Management fee		636,388
Administration fee		318,194
Services to shareholders		2,308
Record keeping fee (Class B and Class B2)		16,200
Distribution service fees (Class B and Class B2)		34,176
Custodian fee		18,562
Professional fees		40,105
Reports to shareholders		30,024
Trustees' fees and expenses		14,374
Other		16,049
Total expenses before expense reductions		1,126,380
Expense reductions		(32,264)
Total expenses after expense reductions		1,094,116
Net investment income (loss)		**5,512,708**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		14,659,956
Futures		316,717
		14,976,673
Change in net unrealized appreciation (depreciation) on:		
Investments		(12,968,648)
Futures		(261,948)
		(13,230,596)
Net gain (loss)		**1,746,077**
Net increase (decrease) in net assets resulting from operations	**$**	**7,258,785**

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

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2015 (Unaudited)	Year Ended December 31, 2014
Operations:		
Net investment income (loss)	$ 5,512,708	$ 10,405,558
Net realized gain (loss)	14,976,673	29,177,166
Change in net unrealized appreciation (depreciation)	(13,230,596)	37,616,286
Net increase (decrease) in net assets resulting from operations	7,258,785	77,199,010
Distributions to shareholders from:		
Net investment income:		
Class A	(9,872,144)	(11,057,697)
Class B	(139,339)	(84,385)
Class B2	(233,490)	(287,223)
Net realized gains:		
Class A	(27,498,227)	(19,839,875)
Class B	(461,402)	(173,737)
Class B2	(836,657)	(647,089)
Total distributions	(39,041,259)	(32,090,006)
Fund share transactions:		
Class A		
Proceeds from shares sold	14,456,337	27,216,371
Reinvestment of distributions	37,370,371	30,897,572
Cost of shares redeemed	(39,368,006)	(91,182,781)
Net increase (decrease) in net assets from Class A share transactions	12,458,702	(33,068,838)
Class B		
Proceeds from shares sold	5,015,017	2,195,802
Reinvestment of distributions	600,741	258,122
Cost of shares redeemed	(617,120)	(865,375)
Net increase (decrease) in net assets from Class B share transactions	4,998,638	1,588,549
Class B2		
Proceeds from shares sold	576,125	926,523
Reinvestment of distributions	1,070,147	934,312
Cost of shares redeemed	(1,958,127)	(4,285,608)
Net increase (decrease) in net assets from Class B2 share transactions	(311,855)	(2,424,773)
Increase (decrease) in net assets	(14,636,989)	11,203,942
Net assets at beginning of period	636,421,859	625,217,917
Net assets at end of period (including undistributed net investment income of $5,486,384 and $10,218,649, respectively)	**$ 621,784,870**	**$ 636,421,859**

Other Information	Six Months Ended June 30, 2015 (Unaudited)	Year Ended December 31, 2014
Class A		
Shares outstanding at beginning of period	29,911,141	31,567,788
Shares sold	707,699	1,399,940
Shares issued to shareholders in reinvestment of distributions	1,892,171	1,693,946
Shares redeemed	(1,951,463)	(4,750,533)
Net increase (decrease) in Class A shares	648,407	(1,656,647)
Shares outstanding at end of period	**30,559,548**	**29,911,141**
Class B		
Shares outstanding at beginning of period	337,768	255,427
Shares sold	245,866	112,884
Shares issued to shareholders in reinvestment of distributions	30,371	14,128
Shares redeemed	(30,266)	(44,671)
Net increase (decrease) in Class B shares	245,971	82,341
Shares outstanding at end of period	**583,739**	**337,768**
Class B2		
Shares outstanding at beginning of period	933,560	1,058,904
Shares sold	28,082	47,260
Shares issued to shareholders in reinvestment of distributions	54,075	51,111
Shares redeemed	(97,371)	(223,715)
Net increase (decrease) in Class B2 shares	(15,214)	(125,344)
Shares outstanding at end of period	**918,346**	**933,560**

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

Financial Highlights

Class A	Six Months Ended 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$20.41**	**$19.01**	**$15.01**	**$13.20**	**$13.17**	**$11.68**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.18	.33	.30	.28	.23	.21
Net realized and unrealized gain (loss)	.06	2.10	4.37	1.78	.03	1.51
Total from investment operations	.24	2.43	4.67	2.06	.26	1.72
Less distributions from:						
Net investment income	(.33)	(.37)	(.31)	(.25)	(.23)	(.23)
Net realized gains	(.93)	(.66)	(.36)	—	—	—
Total distributions	(1.26)	(1.03)	(.67)	(.25)	(.23)	(.23)
Net asset value, end of period	**$19.39**	**$20.41**	**$19.01**	**$15.01**	**$13.20**	**$13.17**
Total Return (%)	1.08[b]**	13.39[b]	31.93[b]	15.70	1.83	14.70
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	593	610	600	668	632	699
Ratio of expenses before expense reductions (%)	.34*	.34	.34	.35	.33	.33
Ratio of expenses after expense reductions (%)	.33*	.33	.34	.35	.33	.33
Ratio of net investment income (loss) (%)	1.75*	1.70	1.76	1.95	1.74	1.74
Portfolio turnover rate (%)	2**	3	4[c]	4	6	5

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 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$20.40**	**$19.01**	**$15.00**	**$13.19**	**$13.17**	**$11.68**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.15	.28	.34	.25	.20	.18
Net realized and unrealized gain (loss)	.07	2.09	4.29	1.78	.01	1.51
Total from investment operations	.22	2.37	4.63	2.03	.21	1.69
Less distributions from:						
Net investment income	(.28)	(.32)	(.26)	(.22)	(.19)	(.20)
Net realized gains	(.93)	(.66)	(.36)	—	—	—
Total distributions	(1.21)	(.98)	(.62)	(.22)	(.19)	(.20)
Net asset value, end of period	**$19.41**	**$20.40**	**$19.01**	**$15.00**	**$13.19**	**$13.17**
Total Return (%)	.97[b]**	13.05[b]	31.68[b]	15.42	1.50	14.52
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	11	7	5	47	45	53
Ratio of expenses before expense reductions (%)	.64*	.62	.59	.60	.58	.58
Ratio of expenses after expense reductions (%)	.58*	.58	.58	.60	.58	.58
Ratio of net investment income (loss) (%)	1.49*	1.45	2.11	1.70	1.49	1.49
Portfolio turnover rate (%)	2**	3	4[c]	4	6	5

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 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$20.40**	**$18.99**	**$14.99**	**$13.18**	**$13.15**	**$11.67**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.14	.27	.23	.22	.18	.16
Net realized and unrealized gain (loss)	.07	2.09	4.37	1.78	.02	1.50
Total from investment operations	.21	2.36	4.60	2.00	.20	1.66
Less distributions from:						
Net investment income	(.26)	(.29)	(.24)	(.19)	(.17)	(.18)
Net realized gains	(.93)	(.66)	(.36)	—	—	—
Total distributions	(1.19)	(.95)	(.60)	(.19)	(.17)	(.18)
Net asset value, end of period	**$19.42**	**$20.40**	**$18.99**	**$14.99**	**$13.18**	**$13.15**
Total Return (%)	.92[b]**	13.00[b]	31.44[b]	15.26[b]	1.43	14.29
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	18	19	20	19	18	20
Ratio of expenses before expense reductions (%)	.74*	.74	.74	.75	.73	.73
Ratio of expenses after expense reductions (%)	.68*	.68	.72	.74	.73	.73
Ratio of net investment income (loss) (%)	1.39*	1.35	1.39	1.55	1.34	1.34
Portfolio turnover rate (%)	2**	3	4[c]	4	6	5

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 (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. Deutsche 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.

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, 2015, 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, 2014 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, 2015, 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, 2015 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2015, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $7,909,000 to $8,552,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2015 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Liability Derivative	Futures Contracts
Equity Contracts (a)	$ (126,209)

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

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

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2015 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)	$ 316,717

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)	$ (261,948)

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, 2015, purchases and sales of investment securities (excluding short-term investments) aggregated $9,569,633 and $22,975,241, 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 subadvisor. Northern Trust Investments, Inc. ("NTI") serves as subadvisor. As a subadvisor to the Fund, NTI makes investment decisions and buys and sells securities for the Fund. NTI is paid by the Advisor for the services NTI provides to 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, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annualized rate (exclusive of any applicable waivers/reimbursements) of 0.20% of the Fund's average daily net assets.

For the period from January 1, 2015 through April 30, 2016, 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 total annual 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, 2015, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 24,152
Class B	2,780
Class B2	5,332
	$ 32,264

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, 2015, the Administration Fee was $318,194, of which $52,754 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, 2015, the Distribution Service Fees were as follows:

Distribution Service Fees	Total Aggregated	Unpaid at June 30, 2015
Class B	$ 11,120	$ 2,255
Class B2	23,056	3,788
	$ 34,176	**$ 6,043**

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, 2015, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2015
Class A	$ 237	$ 118
Class B	51	25
Class B2	25	10
	$ 313	**$ 153**

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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $12,127, of which $11,192 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and 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 1940 Act, 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, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $2,201.

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 the one-month 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, 2015.

F. Ownership of the Fund

At June 30, 2015, 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 47% and 20%, respectively. At June 30, 2015, three participating insurance companies were beneficial owners of record of 10% or more of the total outstanding Class B shares of the Fund, owning 60%, 22% and 10%. At June 30, 2015, one participating insurance company was a beneficial owner of record of 97% of the total outstanding Class B2 shares of the Fund.

Information About Your Fund's Expenses **(Unaudited)**

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, 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, 2015 to June 30, 2015).

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, 2015

Actual Fund Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$1,010.80	$1,009.70	$1,009.20
Expenses Paid per $1,000*	$ 1.65	$ 2.89	$ 3.39

Hypothetical 5% Fund Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$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 Deutsche 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 2014.

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

— In September 2014, 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 counsel to discuss contract review and other matters. In addition, the Independent Trustees were 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 Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG ("DB"), 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 Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's 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 a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 3rd 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, 2013). 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, 2013 (“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 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 ensure that the Fund's total (net) operating expenses would remain competitive. 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 information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors (“Deutsche Europe funds”) managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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 Deutsche U.S. mutual funds (“Deutsche 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 DIMA 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 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 Deutsche 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 DIMA's 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 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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

Deutsche Asset
& Wealth Management

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

vit-equ500-3 (R-028371-4 8/15)

Deutsche Asset
& Wealth Management

June 30, 2015

Semiannual Report

Deutsche Variable Series II

Deutsche 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.

Stocks may decline in value. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Emerging markets tend to be more volatile than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. 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

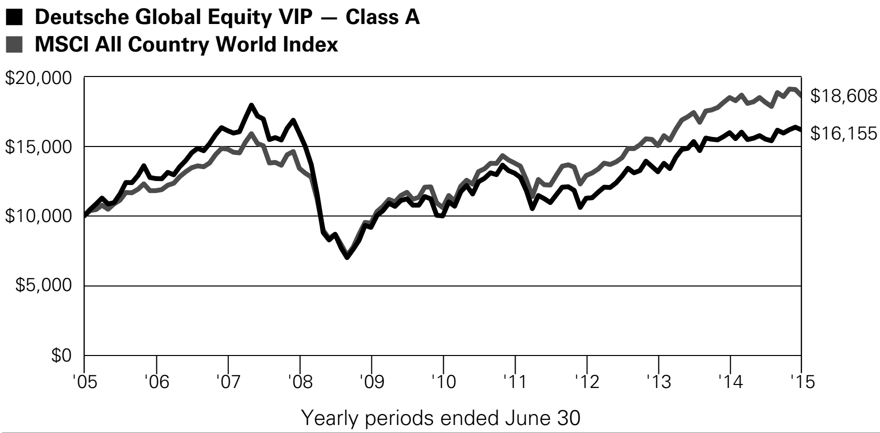
Performance Summary

June 30, 2015 (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, 2015 is 0.95% 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	$10,425	$10,118	$14,347	$16,160	$16,155
	Average annual total return	4.25%	1.18%	12.79%	10.08%	4.91%
MSCI All Country World Index	Growth of $10,000	$10,266	$10,071	$14,434	$17,565	$18,608
	Average annual total return	2.66%	0.71%	13.01%	11.93%	6.41%

The growth of $10,000 is cumulative.

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

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/15**	**12/31/14**
Common Stocks	98%	96%
Cash Equivalents	2%	3%
Participatory Notes	—	1%
	100%	100%

Sector Diversification (As a % of Common Stocks and Participatory Notes)	**6/30/15**	**12/31/14**
Health Care	23%	19%
Financials	14%	11%
Consumer Staples	14%	14%
Information Technology	13%	10%
Industrials	12%	19%
Consumer Discretionary	9%	8%
Materials	8%	11%
Energy	5%	7%
Telecommunication Services	2%	1%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/15**	**12/31/14**
United States	43%	46%
Continental Europe	34%	32%
Canada	7%	7%
United Kingdom	6%	7%
Pacific Basin	5%	3%
Latin America	2%	3%
Other	3%	2%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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 96.9%		
Belgium 1.1%		
Anheuser-Busch InBev NV (Cost $326,770)	6,000	**715,857**
Brazil 1.4%		
Estacio Participacoes SA	88,000	509,472
Itau Unibanco Holding SA (ADR) (Preferred)	40,000	438,000
(Cost $1,243,468)		**947,472**
Canada 6.7%		
Agnico Eagle Mines Ltd.	24,000	680,880
Alimentation Couche-Tard, Inc. "B"	31,000	1,326,125
Brookfield Asset Management, Inc. "A"	44,000	1,537,358
Canadian Pacific Railway Ltd.	5,000	800,720
(Cost $3,366,665)		**4,345,083**
Denmark 1.2%		
Jyske Bank AS (Registered)* (Cost $772,801)	16,000	**801,311**
France 2.9%		
JC Decaux SA (a)	27,000	1,126,758
Pernod Ricard SA (a)	6,500	750,221
(Cost $1,838,781)		**1,876,979**
Germany 4.7%		
BASF SE	7,000	614,653
Fresenius Medical Care AG & Co. KGaA	16,000	1,319,435
Lanxess AG	18,641	1,100,327
(Cost $2,538,836)		**3,034,415**
Hong Kong 0.5%		
AIA Group Ltd. (Cost $299,420)	46,000	**301,651**
Indonesia 1.1%		
PT Bank Negara Indonesia Persero Tbk (Cost $906,268)	1,835,000	**730,367**
Ireland 7.0%		
Allergan PLC* (b)	5,600	1,699,376
Glanbia PLC	62,000	1,218,597
Kerry Group PLC "A"	11,000	815,390
Shire PLC	10,000	798,942
(Cost $3,326,508)		**4,532,305**
Israel 0.8%		
Mobileye NV* (b) (Cost $410,247)	10,000	**531,700**
Luxembourg 1.4%		
Eurofins Scientific (a) (Cost $712,011)	3,000	**912,774**
Malaysia 0.7%		
IHH Healthcare Bhd. (Cost $390,629)	300,000	**449,969**
Mexico 1.0%		
Fomento Economico Mexicano SAB de CV (ADR) (Cost $634,131)	7,000	**623,630**
Netherlands 1.2%		
Sensata Technologies Holding NV* (b) (Cost $706,618)	15,000	**791,100**
Norway 4.0%		
DNO ASA* (a)	291,000	382,588
Gjensidige Forsikring ASA	62,000	999,456
Marine Harvest ASA	105,000	1,207,634
(Cost $2,797,542)		**2,589,678**
Philippines 2.7%		
GT Capital Holdings, Inc.	35,115	1,065,511
Universal Robina Corp.	160,000	689,187
(Cost $1,623,254)		**1,754,698**
South Africa 2.5%		
Aspen Pharmacare Holdings Ltd.*	25,000	741,902
MTN Group Ltd.	48,000	904,170
(Cost $1,680,402)		**1,646,072**
Sweden 3.8%		
Assa Abloy AB "B"	37,500	706,134
Atlas Copco AB "A"	23,000	643,679
Hennes & Mauritz AB "B"	11,000	423,349
Telefonaktiebolaget LM Ericsson "B"	70,000	724,370
(Cost $2,525,870)		**2,497,532**
Switzerland 4.9%		
Galenica AG (Registered)	1,400	1,459,526
Lonza Group AG (Registered)*	6,000	800,635
Nestle SA (Registered)	12,515	902,874
(Cost $2,557,890)		**3,163,035**
United Kingdom 6.0%		
Anglo American PLC	46,000	663,942
Aon PLC (b)	7,000	697,760
Aveva Group PLC	16,000	454,502
Compass Group PLC	59,000	976,785
Halma PLC	40,000	478,756
Smith & Nephew PLC	14,000	235,937
Spirax-Sarco Engineering PLC	7,714	411,268
(Cost $4,217,013)		**3,918,950**
United States 41.3%		
Acadia Healthcare Co., Inc.*	4,000	313,320
Alliance Data Systems Corp.*	4,800	1,401,312
Amphenol Corp. "A"	33,000	1,913,010
Applied Materials, Inc.	35,000	672,700
Bristol-Myers Squibb Co.	14,000	931,560
CBRE Group, Inc. "A"*	18,000	666,000
Cerner Corp.*	12,000	828,720
Danaher Corp. (a)	13,000	1,112,670
eBay, Inc.*	14,000	843,360
Ecolab, Inc.	11,000	1,243,770
Envision Healthcare Holdings, Inc.*	13,000	513,240
Evolent Health, Inc. "A"*	14,280	278,460
Express Scripts Holding Co.* (a)	9,000	800,460
Exxon Mobil Corp.	6,500	540,800
Harman International Industries, Inc.	8,000	951,520
HealthStream, Inc.*	19,000	577,980
JPMorgan Chase & Co. (a)	26,000	1,761,760
Las Vegas Sands Corp.	16,000	841,120
LKQ Corp.*	23,000	695,635
MasterCard, Inc. "A"	14,000	1,308,720
Mead Johnson Nutrition Co.	6,500	586,430
Nielsen NV	16,000	716,320

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

	Shares	Value ($)
Noble Energy, Inc.	30,000	1,280,400
Omnicare, Inc.	5,000	471,250
Pall Corp.	11,000	1,368,950
Praxair, Inc.	7,500	896,625
Press Ganey Holdings, Inc.*	20,000	573,400
Schlumberger Ltd.	11,000	948,090
United Technologies Corp.	11,000	1,220,230
Zoetis, Inc.	12,000	578,640
(Cost $23,213,327)		**26,836,452**
Total Common Stocks (Cost $56,088,451)		**63,001,030**

	Shares	Value ($)
Securities Lending Collateral 10.5%		
Daily Assets Fund Institutional, 0.16% (c) (d) (Cost $6,799,243)	6,799,243	**6,799,243**
Cash Equivalents 2.4%		
Central Cash Management Fund, 0.09% (c) (Cost $1,550,183)	1,550,183	**1,550,183**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $64,437,877)†	109.8	**71,350,456**
Other Assets and Liabilities, Net	(9.8)	**(6,362,195)**
Net Assets	100.0	**64,988,261**

* Non-income producing security.

† The cost for federal income tax purposes was $64,435,729. At June 30, 2015, net unrealized appreciation for all securities based on tax cost was $6,914,727. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $9,318,661 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,403,934.

(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, 2015 amounted to $6,566,704, which is 10.1% 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

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, 2015 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	$ —	$ 715,857	$ —	$ 715,857
Brazil	947,472	—	—	947,472
Canada	4,345,083	—	—	4,345,083
Denmark	—	801,311	—	801,311
France	—	1,876,979	—	1,876,979
Germany	—	3,034,415	—	3,034,415
Hong Kong	—	301,651	—	301,651
Indonesia	—	730,367	—	730,367
Ireland	1,699,376	2,832,929	—	4,532,305
Israel	531,700	—	—	531,700
Luxembourg	—	912,774	—	912,774
Malaysia	—	449,969	—	449,969
Mexico	623,630	—	—	623,630
Netherlands	791,100	—	—	791,100
Norway	—	2,589,678	—	2,589,678
Philippines	—	1,754,698	—	1,754,698
South Africa	—	1,646,072	—	1,646,072
Sweden	—	2,497,532	—	2,497,532
Switzerland	—	3,163,035	—	3,163,035
United Kingdom	697,760	3,221,190	—	3,918,950
United States	26,836,452	—	—	26,836,452
Short-Term Investments (e)	8,349,426	—	—	8,349,426
Total	**$ 44,821,999**	**$ 26,528,457**	**$ —**	**$ 71,350,456**

There have been no transfers between fair value measurement levels during the period ended June 30, 2015.

(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, 2015 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $56,088,451) — including $6,566,704 of securities loaned	$	63,001,030
Investment in Daily Assets Fund Institutional (cost $6,799,243)*		6,799,243
Investment in Central Cash Management Fund (cost $1,550,183)		1,550,183
Total investments in securities, at value (cost $64,437,877)		71,350,456
Foreign currency, at value (cost $381,709)		380,281
Receivable for investments sold		90,111
Receivable for Fund shares sold		270
Dividends receivable		46,875
Interest receivable		825
Foreign taxes recoverable		58,949
Other assets		659
Total assets		71,928,426
Liabilities		
Payable upon return of securities loaned		6,799,243
Payable for Fund shares redeemed		49,954
Accrued management fee		22,802
Accrued Trustees' fees		305
Other accrued expenses and payables		67,861
Total liabilities		6,940,165
Net assets, at value	**$**	**64,988,261**
Net Assets Consist of		
Undistributed net investment income		319,818
Net unrealized appreciation (depreciation) on:		
Investments		6,912,579
Foreign currency		(2,895)
Accumulated net realized gain (loss)		(42,482,717)
Paid-in capital		100,241,476
Net assets, at value	**$**	**64,988,261**
Class A		
Net Asset Value, offering and redemption price per share ($64,988,261 ÷ 6,806,785 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**9.55**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2015 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $61,235)	$	627,954
Interest		761
Income distributions — Central Cash Management Fund		670
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		12,227
Total income		641,612
Expenses:		
Management fee		216,067
Administration fee		33,241
Services to shareholders		418
Custodian fee		25,675
Professional fees		34,784
Reports to shareholders		11,559
Trustees' fees and expenses		2,443
Other		10,288
Total expenses before expense reductions		334,475
Expense reductions		(31,981)
Total expenses after expense reductions		302,494
Net investment income		**339,118**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		1,648,774
Foreign currency		26,211
		1,674,985
Change in net unrealized appreciation (depreciation) on:		
Investments		758,730
Foreign currency		2,856
		761,586
Net gain (loss)		**2,436,571**
Net increase (decrease) in net assets resulting from operations	**$**	**2,775,689**

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, 2015 (Unaudited)	Year Ended December 31, 2014
Operations:		
Net investment income	$ 339,118	$ 421,556
Net realized gain (loss)	1,674,985	3,328,692
Change in net unrealized appreciation (depreciation)	761,586	(2,963,485)
Net increase (decrease) in net assets resulting from operations	2,775,689	786,763
Distributions to shareholders from:		
Net investment income:		
Class A	(365,100)	(1,256,998)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,026,406	2,233,568
Reinvestment of distributions	365,100	1,256,998
Payments for shares redeemed	(6,731,345)	(8,090,295)
Net increase (decrease) in net assets from Class A share transactions	(5,339,839)	(4,599,729)
Increase (decrease) in net assets	(2,929,250)	(5,069,964)
Net assets at beginning of period	67,917,511	72,987,475
Net assets at end of period (including undistributed net investment income of $319,818 and $345,800, respectively)	**$ 64,988,261**	**$ 67,917,511**

Other Information		
Class A		
Shares outstanding at beginning of period	7,372,593	7,869,570
Shares sold	107,207	240,333
Shares issued to shareholders in reinvestment of distributions	37,523	138,132
Shares redeemed	(710,538)	(875,442)
Net increase (decrease) in Class A shares	(565,808)	(496,977)
Shares outstanding at end of period	**6,806,785**	**7,372,593**

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

Financial Highlights

Class A	Six Months Ended 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$ 9.21**	**$ 9.27**	**$ 7.96**	**$ 6.98**	**$ 8.08**	**$ 7.45**
Income (loss) from investment operations:						
Net investment income[a]	.05	.06	.14	.18	.19	.14
Net realized and unrealized gain (loss)	.34	.04	1.37	1.01	(1.14)	.66
Total from investment operations	.39	.10	1.51	1.19	(.95)	.80
Less distributions from:						
Net investment income	(.05)	(.16)	(.20)	(.21)	(.15)	(.17)
Net asset value, end of period	**$ 9.55**	**$ 9.21**	**$ 9.27**	**$ 7.96**	**$ 6.98**	**$ 8.08**
Total Return (%)	4.25[b]**	1.14	19.31[b]	17.34	(12.07)	10.93
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	65	68	73	67	65	83
Ratio of expenses before expense reductions (%)	1.01*	.95	1.06	1.02	1.03	.99
Ratio of expenses after expense reductions (%)	.91*	.95	.99	1.02	1.03	.99
Ratio of net investment income (%)	1.02*	.59	1.69	2.46	2.44	1.90
Portfolio turnover rate (%)	42**	78	139	18	26	14

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

A. Organization and Significant Accounting Policies

Deutsche Global Equity VIP (the "Fund") is a diversified series of Deutsche 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.

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, 2015, 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, 2014, the Fund had a net tax basis capital loss carryforward of approximately $44,062,000 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 ($4,898,000) and December 31, 2017 ($39,164,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2014 through December 31, 2014, the Fund elected to defer qualified late year losses of approximately $98,000 of net short-term capital losses and treat them as arising in the fiscal year ending December 31, 2015.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 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. 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, 2015, purchases and sales of investment transactions (excluding short-term investments) aggregated $27,310,896 and $32,209,707, 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 $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, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annualized rate (exclusive of any applicable waivers/reimbursements) of 0.65% of the Fund's average daily net assets.

For the period from January 1, 2015 through April 30, 2016, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A shares at 0.91%.

For the six months ended June 30, 2015, fees waived and/or expenses reimbursed were $31,981.

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, 2015, the Administration Fee was $33,241, of which $5,475 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, 2015, 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $5,098, of which $4,792 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 1940 Act, 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, 2015, the Fund incurred lending agent fees to Deutsche Bank AG in the amount of $1,063.

D. Ownership of the Fund

At June 30, 2015, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 77% and 23%.

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 the one-month 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, 2015.

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, 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, 2015 to June 30, 2015).

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, 2015

Actual Fund Return	Class A
Beginning Account Value 1/1/15	$1,000.00
Ending Account Value 6/30/15	$1,042.50
Expenses Paid per $1,000*	$ 4.61

Hypothetical 5% Fund Return	Class A
Beginning Account Value 1/1/15	$1,000.00
Ending Account Value 6/30/15	$1,020.28
Expenses Paid per $1,000*	$ 4.56

* 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	.91%

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 Deutsche Global Equity VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

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

— In September 2014, 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 counsel to discuss contract review and other matters. In addition, the Independent Trustees were 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 ("DB"), 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 Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's 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 index(es) 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 a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 3rd 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, 2013.

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, 2013). 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, 2013, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). 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 that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. 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 information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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 Deutsche U.S. mutual funds ("Deutsche 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 DIMA 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.

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 Deutsche 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 DIMA's 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 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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

Deutsche Asset
& Wealth Management

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

VS2GE-3 (R-028380-4 8/15)

Deutsche Asset
& Wealth Management

June 30, 2015

Semiannual Report

Deutsche Variable Series II

Deutsche Global 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.

Stocks may decline in value. Smaller company stocks tend to be more volatile than medium-sized or large company stocks. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Emerging markets tend to be more volatile than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. 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

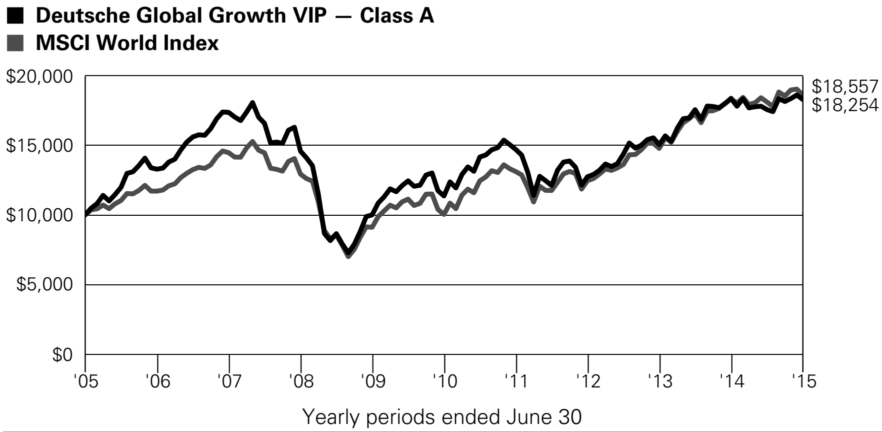
Performance Summary

June 30, 2015 (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, 2015 are 1.41% and 1.76% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

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	$10,407	$9,956	$14,350	$16,087	$18,254
	Average annual total return	4.07%	–0.44%	12.79%	9.97%	6.20%
MSCI World Index	Growth of $10,000	$10,263	$10,143	$14,920	$18,502	$18,557
	Average annual total return	2.63%	1.43%	14.27%	13.10%	6.38%

Deutsche Global Growth VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,390	$9,914	$14,204	$15,808	$17,603
	Average annual total return	3.90%	–0.86%	12.41%	9.59%	5.82%
MSCI World Index	Growth of $10,000	$10,263	$10,143	$14,920	$18,502	$18,557
	Average annual total return	2.63%	1.43%	14.27%	13.10%	6.38%

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)	**6/30/15**	**12/31/14**
Common Stocks	96%	95%
Cash Equivalents	4%	4%
Preferred Stock	0%	—
Participatory Notes	—	1%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/15**	**12/31/14**
Health Care	21%	18%
Industrials	15%	20%
Consumer Staples	13%	13%
Financials	13%	11%
Consumer Discretionary	12%	12%
Information Technology	12%	10%
Materials	8%	9%
Energy	4%	6%
Telecommunication Services	2%	1%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/15**	**12/31/14**
United States	40%	47%
Europe	34%	29%
United Kingdom	8%	7%
Canada	7%	7%
Asia (excluding Japan)	6%	5%
Latin America	2%	2%
Japan	2%	2%
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 5.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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
Sebastian P. Werner, PhD
Portfolio Managers

	Shares	Value ($)
Common Stocks 95.4%		
Australia 0.2%		
G8 Education Ltd. (Cost $84,929)	28,757	**72,578**
Belgium 1.0%		
Anheuser-Busch InBev NV (Cost $370,873)	4,000	**477,238**
Bermuda 0.3%		
Lazard Ltd. "A" (Cost $47,986)	2,059	**115,798**
Brazil 0.7%		
Estacio Participacoes SA (Cost $520,471)	57,000	**329,999**
Canada 6.2%		
Agnico Eagle Mines Ltd.	12,000	340,440
Alimentation Couche-Tard, Inc. "B"	18,300	782,841
Brookfield Asset Management, Inc. "A"	25,500	890,969
Canadian Pacific Railway Ltd.	3,000	480,432
Goldcorp, Inc.	8,000	129,600
Quebecor, Inc. "B"	4,507	112,657
SunOpta, Inc.*	11,038	118,438
(Cost $2,433,735)		**2,855,377**
China 0.2%		
Minth Group Ltd. (Cost $85,577)	48,870	**109,367**
Denmark 1.7%		
Jyske Bank AS (Registered)*	10,600	530,869
TDC AS	36,000	263,522
(Cost $799,205)		**794,391**
Finland 0.2%		
Cramo Oyj (Cost $102,721)	4,752	**91,762**
France 2.4%		
Flamel Technologies SA (ADR)*	10,778	228,386
Parrot SA*	664	29,791
Pernod Ricard SA (a)	5,500	634,802
Vivendi SA	9,000	226,901
(Cost $1,128,743)		**1,119,880**
Germany 5.0%		
BASF SE	4,700	412,695
Fresenius Medical Care AG & Co. KGaA	10,500	865,879
LANXESS AG	11,000	649,300
Patrizia Immobilien AG*	4,441	108,586
United Internet AG (Registered)	4,055	180,104
VIB Vermoegen AG	4,543	81,112
(Cost $1,953,170)		**2,297,676**
Hong Kong 1.1%		
AIA Group Ltd.	25,000	163,941
K Wah International Holdings Ltd.	179,323	95,434
Playmates Toys Ltd.	230,951	44,691
REXLot Holdings Ltd.	1,009,635	57,327
Sun Hung Kai & Co., Ltd.	56,380	50,981
Techtronic Industries Co., Ltd.	31,974	105,511
(Cost $562,784)		**517,885**
Indonesia 1.0%		
PT Arwana Citramulia Tbk	1,118,618	44,451
PT Bank Negara Indonesia Persero Tbk	800,000	318,416
PT Multipolar Tbk	1,697,639	79,918
(Cost $596,518)		**442,785**
Ireland 5.8%		
Allergan PLC* (c)	3,900	1,183,494
Greencore Group PLC	20,487	100,970
Kerry Group PLC "A"	7,500	555,948
Paddy Power PLC	1,102	94,440
Ryanair Holdings PLC (ADR) (b)	2,097	149,621
Shire PLC	7,500	599,206
(Cost $2,024,151)		**2,683,679**
Italy 0.8%		
Prysmian SpA	4,340	93,529
Unipol Gruppo Finanziario SpA (a)	50,000	254,430
(Cost $263,449)		**347,959**
Japan 1.8%		
Ai Holdings Corp.	5,340	94,673
Avex Group Holdings, Inc.	5,267	92,634
Kusuri No Aoki Co., Ltd.	4,158	184,771
MISUMI Group, Inc.	5,811	82,690
Nippon Seiki Co., Ltd.	7,783	154,909
United Arrows Ltd.	2,070	64,982
Universal Entertainment Corp.	5,003	113,171
UT Holdings Co., Ltd.*	10,269	51,016
(Cost $684,545)		**838,846**
Korea 0.1%		
Suprema, Inc.* (Cost $28,356)	1,395	**28,764**
Luxembourg 1.4%		
Eurofins Scientific (a) (Cost $494,226)	2,100	**638,942**
Malaysia 0.9%		
Hartalega Holdings Bhd.	34,597	78,124
IHH Healthcare Bhd.	150,000	224,984
Nirvana Asia Ltd. 144A	215,599	58,687
Tune Ins Holdings Bhd.	168,551	73,425
(Cost $437,612)		**435,220**
Mexico 0.9%		
Fomento Economico Mexicano SAB de CV (ADR) (Cost $439,160)	4,700	**418,723**
Netherlands 2.8%		
Brunel International NV	3,676	73,103
Constellium NV "A"* (c)	7,061	83,531
ING Groep NV (CVA)	36,000	590,691
SBM Offshore NV*	6,282	74,350
Sensata Technologies Holding NV* (c)	8,632	455,252
(Cost $1,199,971)		**1,276,927**
Norway 1.8%		
DNO ASA* (a)	120,000	157,768
Marine Harvest ASA	60,000	690,077
(Cost $937,473)		**847,845**

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

	Shares	Value ($)
Panama 0.2%		
Banco Latinoamericano de Comercio Exterior SA "E" (Cost $76,369)	3,417	**109,959**
Philippines 2.1%		
Alliance Global Group, Inc.	167,256	80,628
GT Capital Holdings, Inc.	16,600	503,701
Universal Robina Corp.	88,000	379,053
(Cost $954,593)		**963,382**
Singapore 0.1%		
Lian Beng Group Ltd. (Cost $65,155)	156,264	**63,218**
South Africa 1.1%		
MTN Group Ltd. (Cost $527,752)	27,500	**518,014**
Spain 0.6%		
Mediaset Espana Comunicacion SA	18,000	235,757
Talgo SA 144A*	7,098	56,817
(Cost $281,108)		**292,574**
Sweden 4.2%		
Assa Abloy AB "B"	19,500	367,190
Atlas Copco AB "A"	14,600	408,596
BillerudKorsnas AB	20,000	314,307
Hennes & Mauritz AB "B"	8,500	327,133
Nobina AB 144A*	18,007	68,206
Telefonaktiebolaget LM Ericsson "B"	43,000	444,970
(Cost $1,962,274)		**1,930,402**
Switzerland 5.2%		
Dufry AG (Registered)*	645	89,961
Galenica AG (Registered) (a)	810	844,440
Lonza Group AG (Registered)*	3,200	427,006
Nestle SA (Registered)	11,000	793,576
Novartis AG (Registered)	2,700	265,949
(Cost $2,267,945)		**2,420,932**
Thailand 0.1%		
Malee Sampran PCL (Foreign Registered) (Cost $76,643)	44,799	**42,444**
United Kingdom 7.7%		
Anglo American PLC	25,000	360,838
Arrow Global Group PLC	25,631	106,521
Aveva Group PLC	9,000	255,657
Babcock International Group PLC	11,458	194,306
Clinigen Healthcare Ltd.	9,936	97,340
Compass Group PLC	30,000	496,671
Crest Nicholson Holdings PLC	13,017	114,692
Domino's Pizza Group PLC	6,860	83,710
Halma PLC	22,000	263,316
Hargreaves Lansdown PLC	5,179	93,888
HellermannTyton Group PLC	17,731	96,064
Howden Joinery Group PLC	15,644	126,914
IMI PLC	9,000	159,502
Jardine Lloyd Thompson Group PLC	4,314	70,906
Polypipe Group PLC	24,423	104,187
Reckitt Benckiser Group PLC	5,000	431,260
Rotork PLC	22,540	82,378
Smith & Nephew PLC	19,500	328,627
Spirax-Sarco Engineering PLC	2,103	112,122
(Cost $3,665,717)		**3,578,899**

	Shares	Value ($)
United States 37.8%		
Advance Auto Parts, Inc.	646	102,901
Affiliated Managers Group, Inc.*	538	117,607
Agilent Technologies, Inc.	5,000	192,900
Alliance Data Systems Corp.*	2,800	817,432
Altra Industrial Motion Corp. (a)	1,428	38,813
Amphenol Corp. "A"	18,500	1,072,445
AZZ, Inc.	590	30,562
BE Aerospace, Inc.	1,296	71,150
Berry Plastics Group, Inc.*	2,097	67,943
BorgWarner, Inc.	1,526	86,738
Bristol-Myers Squibb Co.	7,500	499,050
Cardtronics, Inc.* (a)	2,587	95,848
Casey's General Stores, Inc. (a)	1,299	124,366
Cerner Corp.* (a)	6,300	435,078
Danaher Corp.	8,000	684,720
DigitalGlobe, Inc.*	2,120	58,915
eBay, Inc.*	7,500	451,800
Ecolab, Inc.	6,000	678,420
Encore Capital Group, Inc.* (a)	1,457	62,272
Envision Healthcare Holdings, Inc.*	7,500	296,100
Express Scripts Holding Co.*	4,700	418,018
Exxon Mobil Corp.	4,500	374,400
Fogo De Chao, Inc.* (a)	2,139	49,539
Fox Factory Holding Corp.*	5,680	91,334
Gentherm, Inc.* (a)	2,392	131,345
Hain Celestial Group, Inc.*	1,629	107,286
Harman International Industries, Inc.	4,500	535,230
HeartWare International, Inc.*	608	44,196
Jack in the Box, Inc.	1,208	106,497
JPMorgan Chase & Co.	14,000	948,640
Kindred Healthcare, Inc.	4,071	82,601
Las Vegas Sands Corp. (a)	8,800	462,616
MasterCard, Inc. "A"	10,300	962,844
Middleby Corp.*	1,315	147,582
Molina Healthcare, Inc.* (a)	1,947	136,874
Nielsen NV	13,000	582,010
Noble Energy, Inc.	15,600	665,808
NxStage Medical, Inc.*	2,848	40,684
Oaktree Capital Group LLC	2,392	127,207
Oil States International, Inc.*	1,255	46,724
Omnicare, Inc.	7,000	659,750
Pacira Pharmaceuticals, Inc.*	1,189	84,086
Pall Corp.	6,500	808,925
PAREXEL International Corp.*	1,050	67,526
Polaris Industries, Inc. (a)	831	123,079
Praxair, Inc.	5,000	597,750
Primoris Services Corp. (a)	4,351	86,150
Providence Service Corp.*	3,304	146,301
Retrophin, Inc.*	4,519	149,805
Roadrunner Transportation Systems, Inc.*	3,101	80,006
Schlumberger Ltd.	6,000	517,140
Sinclair Broadcast Group, Inc. "A"	3,377	94,252
Tenneco, Inc.*	1,736	99,716
Thoratec Corp.*	2,982	132,908
TiVo, Inc.* (a)	6,631	67,238
TriNet Group, Inc.*	2,703	68,521
Tristate Capital Holdings, Inc.*	6,324	81,769
United Rentals, Inc.*	336	29,440
United Technologies Corp.	7,000	776,510
Urban Outfitters, Inc.* (a)	2,628	91,980

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

	Shares	Value ($)
VeriFone Systems, Inc.*	3,473	117,943
WABCO Holdings, Inc.*	1,138	140,793
Waddell & Reed Financial, Inc. "A" (a)	2,060	97,459
Western Digital Corp.	1,604	125,786
WEX, Inc.*	421	47,981
Zeltiq Aesthetics, Inc.*	3,900	114,933
Zoe's Kitchen, Inc.*	1,665	68,165
(Cost $14,430,802)		**17,522,407**
Total Common Stocks (Cost $39,504,013)		**44,183,872**

Preferred Stock 0.0%

United States

	Shares	Value ($)
Providence Service Corp.* (Cost $13,600)	136	**13,590**

Securities Lending Collateral 9.4%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.16% (d) (e) (Cost $4,345,349)	4,345,349	**4,345,349**

Cash Equivalents 3.7%

	Shares	Value ($)
Central Cash Management Fund, 0.09% (d) (Cost $1,735,007)	1,735,007	**1,735,007**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $45,597,969)†	108.5	**50,277,818**
Other Assets and Liabilities, Net (a)	(8.5)	**(3,931,822)**
Net Assets	100.0	**46,345,996**

* Non-income producing security.

† The cost for federal income tax purposes was $45,765,775. At June 30, 2015, net unrealized appreciation for all securities based on tax cost was $4,512,043. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $6,863,037 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,350,994.

(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, 2015 amounted to $4,222,774, which is 9.1% of net assets.

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

(c) Listed on the New York Stock Exchange.

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

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

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

ADR: American Depositary Receipt

CVA: Certificaten Van Aandelen (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, 2015 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	$ —	$ 72,578	$ —	$ 72,578
Belgium	—	477,238	—	477,238
Bermuda	115,798	—	—	115,798
Brazil	329,999	—	—	329,999
Canada	2,855,377	—	—	2,855,377
China	—	109,367	—	109,367
China	—	794,391	—	794,391
Finland	—	91,762	—	91,762
France	228,386	891,494	—	1,119,880
Germany	—	2,297,676	—	2,297,676
Hong Kong	—	460,558	57,327	517,885
Indonesia	—	442,785	—	442,785
Ireland	1,333,115	1,350,564	—	2,683,679
Italy	—	347,959	—	347,959
Japan	—	838,846	—	838,846
Korea	—	28,764	—	28,764
Luxembourg	—	638,942	—	638,942
Malaysia	—	435,220	—	435,220
Mexico	418,723	—	—	418,723
Netherlands	538,783	738,144	—	1,276,927
Norway	—	847,845	—	847,845
Panama	109,959	—	—	109,959
Philippines	—	963,382	—	963,382
Singapore	—	63,218	—	63,218
South Africa	—	518,014	—	518,014
Spain	—	292,574	—	292,574
Sweden	—	1,930,402	—	1,930,402
Switzerland	—	2,420,932	—	2,420,932
Thailand	—	42,444	—	42,444
United Kingdom	—	3,578,899	—	3,578,899
United States	17,522,407	—	—	17,522,407
Preferred Stock	—	—	13,590	13,590
Short-Term Investments (f)	6,080,356	—	—	6,080,356
Total	**$ 29,532,903**	**$ 20,673,998**	**$ 70,917**	**$ 50,277,818**

During the period ended June 30, 2015, the amount of transfers between Level 2 and Level 3 was $94,941. The investment was transferred from Level 2 to Level 3 because the security was halted on the exchange and is valued at the last traded price. A significant change between the last traded price and the price of the security once it resumes trading on the securities exchange could have a material change in the fair value measurement.

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

(f) See Investment Portfolio for additional detailed categorizations.

Statement of Assets and Liabilities

as of June 30, 2015 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $39,517,613) — including $4,222,774 of securities loaned	$	44,197,462
Investment in Daily Assets Fund Institutional (cost $4,345,349)*		4,345,349
Investment in Central Cash Management Fund (cost $1,735,007)		1,735,007
Total investments in securities, at value (cost $45,597,969)		50,277,818
Cash		15,945
Foreign currency, at value (cost $356,742)		355,772
Receivable for investments sold		130,901
Receivable for Fund shares sold		3,085
Dividends receivable		35,069
Interest receivable		1,253
Foreign taxes recoverable		34,711
Other assets		1,095
Total assets		50,855,649
Liabilities		
Payable upon return of securities loaned		4,345,349
Payable for investments purchased		41,011
Payable for Fund shares redeemed		35,182
Accrued management fees		15,538
Accrued Trustees' fees		1,165
Other accrued expenses and payables		71,408
Total liabilities		4,509,653
Net assets, at value		**46,345,996**
Net Assets Consist of		
Undistributed net investment income		141,103
Net unrealized appreciation (depreciation) on:		
Investments		4,679,849
Foreign currency		(2,640)
Accumulated net realized gain (loss)		(41,245,620)
Paid-in capital		82,773,304
Net assets, at value		**46,345,996**
Class A		
Net Asset Value, offering and redemption price per share ($46,240,685 ÷ 4,060,281 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.39**
Class B		
Net Asset Value, offering and redemption price per share ($105,311 ÷ 9,219 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.42**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2015 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $37,565)	$	460,331
Interest		12
Income distributions — Central Cash Management Fund		516
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		5,188
Total income		466,047
Expenses:		
Management fee		214,980
Administration fee		23,495
Services to shareholders		521
Record keeping fees (Class B)		6
Distribution service fee (Class B)		142
Custodian fee		25,441
Professional fees		37,798
Reports to shareholders		13,803
Trustees' fees and expenses		2,083
Other		14,290
Total expenses before expense reductions		332,559
Expense reductions		(120,928)
Total expenses after expense reductions		211,631
Net investment income (loss)		**254,416**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		584,549
Futures		(44,599)
Foreign currency		8,094
		548,044
Change in net unrealized appreciation (depreciation) on:		
Investments		1,025,069
Futures		17,264
Foreign currency		4,898
		1,047,231
Net gain (loss)		**1,595,275**
Net increase (decrease) in net assets resulting from operations	**$**	**1,849,691**

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, 2015 (Unaudited)	Years Ended December 31, 2014
Operations:		
Net investment income (loss)	$ 254,416	$ 355,555
Net realized gain (loss)	548,044	2,372,458
Change in net unrealized appreciation (depreciation)	1,047,231	(2,579,995)
Net increase (decrease) in net assets resulting from operations	1,849,691	148,018
Distributions to shareholders from:		
Net investment income:		
Class A	(371,824)	(509,707)
Class B	(513)	(15,999)
Total distributions	(372,337)	(525,706)
Fund share transactions:		
Class A		
Proceeds from shares sold	846,963	2,921,038
Reinvestment of distributions	371,824	509,707
Payments for shares redeemed	(3,531,544)	(7,205,720)
Net increase (decrease) in net assets from Class A share transactions	(2,312,757)	(3,774,975)
Class B		
Proceeds from shares sold	3,701	24,993
Reinvestment of distributions	513	15,999
Payments for shares redeemed	(13,612)	(2,651,803)
Net increase (decrease) in net assets from Class B share transactions	(9,398)	(2,610,811)
Increase (decrease) in net assets	(844,801)	(6,763,474)
Net assets at beginning of period	47,190,797	53,954,271
Net assets at end of period (including undistributed net investment income of $141,103 and $259,024, respectively)	**$ 46,345,996**	**$ 47,190,797**

Other Information		
Class A		
Shares outstanding at beginning of period	4,265,093	4,601,327
Shares sold	73,507	261,234
Shares issued to shareholders in reinvestment of distributions	31,944	46,464
Shares redeemed	(310,263)	(643,932)
Net increase (decrease) in Class A shares	(204,812)	(336,234)
Shares outstanding at end of period	**4,060,281**	**4,265,093**
Class B		
Shares outstanding at beginning of period	10,038	246,555
Shares sold	324	2,774
Shares issued to shareholders in reinvestment of distributions	44	1,453
Shares redeemed	(1,187)	(240,744)
Net increase (decrease) in Class B shares	(819)	(236,517)
Shares outstanding at end of period	**9,219**	**10,038**

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

Financial Highlights

Class A	Six Months Ended 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$11.04**	**$11.13**	**$ 9.24**	**$ 7.90**	**$ 9.28**	**$ 8.24**
Income (loss) from investment operations:						
Net investment income[a]	.06	.08	.10	.12	.11	.06
Net realized and unrealized gain (loss)	.38	(.06)	1.92	1.34	(1.43)	1.06
Total from investment operations	.44	.02	2.02	1.46	(1.32)	1.12
Less distributions from:						
Net investment income	(.09)	(.11)	(.13)	(.12)	(.06)	(.08)
Net asset value, end of period	**$11.39**	**$11.04**	**$11.13**	**$ 9.24**	**$ 7.90**	**$ 9.28**
Total Return (%)[b]	4.07**	.21	22.08	18.60	(14.39)	13.65
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	46	47	51	54	49	68
Ratio of expenses before expense reductions (%)	1.41*	1.41	1.45	1.42	1.37	1.41
Ratio of expenses after expense reductions (%)	.90*	.82	.88	.99	1.03	1.05
Ratio of net investment income (%)	1.08*	.71	1.00	1.40	1.24	.77
Portfolio turnover rate (%)	31**	63	171	107	127	165

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 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$11.05**	**$11.14**	**$ 9.25**	**$ 7.91**	**$ 9.29**	**$ 8.25**
Income (loss) from investment operations:						
Net investment income[a]	.04	.02	.07	.09	.08	.04
Net realized and unrealized gain (loss)	.38	(.04)	1.92	1.34	(1.44)	1.05
Total from investment operations	.42	(.02)	1.99	1.43	(1.36)	1.09
Less distributions from:						
Net investment income	(.05)	(.07)	(.10)	(.09)	(.02)	(.05)
Net asset value, end of period	**$11.42**	**$11.05**	**$11.14**	**$ 9.25**	**$ 7.91**	**$ 9.29**
Total Return (%)[b]	3.90**	(.15)	21.62	18.16	(14.67)	13.24
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	.1	.1	3	3	3	5
Ratio of expenses before expense reductions (%)	1.72*	1.76	1.81	1.76	1.72	1.76
Ratio of expenses after expense reductions (%)	1.21*	1.15	1.23	1.34	1.38	1.40
Ratio of net investment income (%)	.78*	.14	.66	1.04	.88	.42
Portfolio turnover rate (%)	31**	63	171	107	127	165

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 Global Growth VIP (the "Fund") is a diversified series of Deutsche 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.

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.

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, 2015, 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 may invest 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, 2014, the Fund had a net tax basis capital loss carryforward of approximately $41,532,000 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 ($23,743,000) and December 31, 2017 ($17,789,000), the respective expiration dates, whichever occurs first.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 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. 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, 2015, the Fund invested in futures as a substitute for direct investment in 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 recognized in the Statement of Assets and Liabilities.

There were no open futures contracts at June 30, 2015. For the six months ended June 30, 2015, the investment in futures contracts purchased had a total notional value generally indicative of a range from $0 to $870,000.

The amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2015 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)	$ (44,599)

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)	$ 17,264

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, 2015, purchases and sales of investment transactions (excluding short-term investments) aggregated $14,231,450 and $16,661,032, 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	.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, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annualized rate (exclusive of any applicable waivers/reimbursements) of 0.915% of the Fund's average daily net assets.

For the period from January 1, 2015 through April 30, 2016, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

Class A	.90%
Class B	1.25%

For the six months ended June 30, 2015, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 120,637
Class B	291
	$ 120,928

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, 2015, the Administration Fee was $23,495, of which $3,909 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, 2015, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2015
Class A	$ 146	$ 74
Class B	28	13
	$ 174	**$ 87**

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, 2015, the Distribution Service Fee aggregated $142, of which $24 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, 2015, the

amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $7,514, of which $7,139 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 1940 Act, 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.

E. Ownership of the Fund

At June 30, 2015, 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 22%. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, owning 56% and 44%.

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 the one-month 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, 2015.

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, 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, 2015 to June 30, 2015).

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, 2015

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$1,040.70	$1,039.00
Expenses Paid per $1,000*	$ 4.55	$ 6.12

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$1,020.33	$1,018.79
Expenses Paid per $1,000*	$ 4.51	$ 6.06

* 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 Global Growth VIP	.90%	1.21%

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 Deutsche Global Growth VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

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

— In September 2014, 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 counsel to discuss contract review and other matters. In addition, the Independent Trustees were 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 ("DB"), 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 Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's 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 index(es) 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 a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 3rd 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 outperformed its benchmark in the five-year period and has underperformed its benchmark in the one- and three-year periods ended December 31, 2013. 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 the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche 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, 2013). 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, 2013, 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 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 that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. 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 information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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 Deutsche U.S. mutual funds ("Deutsche 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 DIMA 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.

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 Deutsche 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 DIMA's 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 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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

Deutsche Asset
& Wealth Management

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

VS2GG-3 (R-028383-4 8/15)

Deutsche Asset
& Wealth Management

June 30, 2015

Semiannual Report

Deutsche Variable Series II

Deutsche 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. Stocks may decline in value. Smaller company stocks tend to be more volatile than medium-sized or large company stocks. 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. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Emerging markets tend to be more volatile than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Bond investments are subject to interest-rate, credit, liquidity and market risks to varying degrees. 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. 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. The Fund may lend securities to approved institutions. Any fund that focuses in a particular segment of the market or region of the world will generally be more volatile than a fund that invests more broadly. 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

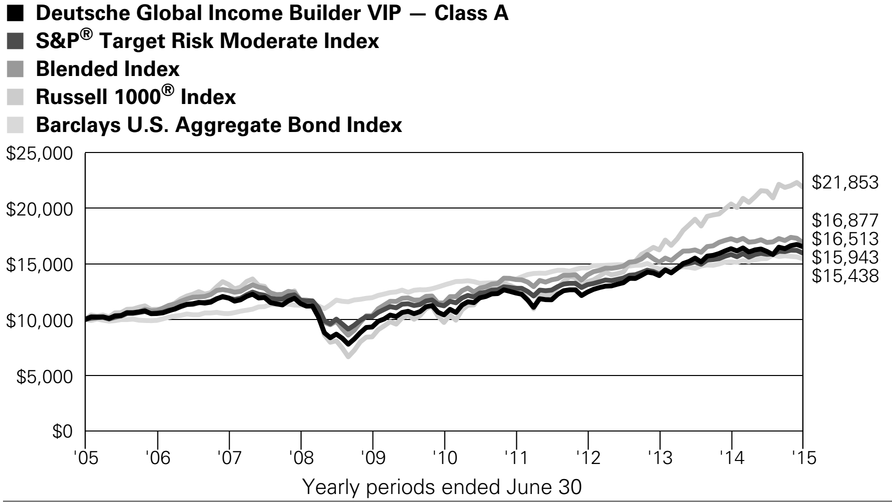
Performance Summary

June 30, 2015 (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, 2015 is 0.62% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Growth of an Assumed $10,000 Investment in Deutsche Global Income Builder VIP



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.

The Blended Index consists of an equally weighted blend (50%/50%) of the MSCI World High Dividend Yield Index and Barclays U.S. Universal Index.

MSCI World High Dividend Yield Index includes securities that offer a meaningfully higher-than-average dividend yield relative to the MSCI World Index and pass dividend sustainability and persistence screens. The index offers broad market coverage, and is free-float market capitalization-weighted to ensure that its performance can be replicated in institutional and retail portfolios. The index is calculated using closing local market prices and translates into US dollars using the London close foreign exchange rates.

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 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.

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

On May 1, 2015, the S&P Target Risk Moderate Index replaced the Russell 1000 Index as the comparative broad based securities market index because the Advisor believes that the S&P Target Risk Moderate Index more closely reflects the fund's investment strategies. On May 1, 2015, the Blended Index replaced the Barclays U.S. Aggregate Bond Index and the S&P Target Risk Moderate Index as the sole additional comparative index. The Advisor believes the Blended Index provides additional comparative performance information and represents the fund's overall strategic asset allocations.

Comparative Results

Deutsche Global Income Builder VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,260	$10,108	$13,256	$15,857	$16,513
	Average annual total return	2.60%	1.08%	9.85%	9.66%	5.14%
S&P® Target Risk Moderate Index	Growth of $10,000	$10,070	$10,077	$12,156	$14,206	$15,943
	Average annual total return	0.70%	0.77%	6.72%	7.27%	4.78%
Blended Index	Growth of $10,000	$9,991	$9,797	$12,058	$14,704	$16,877
	Average annual total return	–0.09%	–2.03%	6.44%	8.02%	5.37%
Russell 1000® Index	Growth of $10,000	$10,171	$10,733	$16,317	$22,470	$21,853
	Average annual total return	1.71%	7.37%	17.73%	17.58%	8.13%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$9,990	$10,186	$10,558	$11,790	$15,438
	Average annual total return	–0.10%	1.86%	1.83%	3.35%	4.44%

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)	**6/30/15**	**12/31/14**
Equity	**53%**	**53%**
Common Stocks	53%	53%
Fixed Income	**45%**	**36%**
Corporate Bonds	21%	25%
Government & Agency Obligations	9%	8%
Mortgage-Backed Securities Pass-Throughs	5%	1%
Deutsche Floating Rate Fund	5%	—
Municipal Bonds and Notes	2%	0%
Collateralized Mortgage Obligations	2%	1%
Asset-Backed	1%	1%
Commercial Mortgage-Backed Securities	0%	0%
Cash Equivalents	**2%**	**11%**
	100%	100%

Sector Diversification (As a % of Equities, Corporate Bonds, Preferred Securities, Convertible Bonds and Other Investments)	**6/30/15**	**12/31/14**
Financials	22%	22%
Consumer Discretionary	12%	12%
Telecommunication Services	10%	10%
Health Care	10%	8%
Information Technology	9%	9%
Industrials	9%	10%
Energy	9%	10%
Consumer Staples	7%	8%
Materials	6%	6%
Utilities	6%	5%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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 55.3%		
Consumer Discretionary 6.1%		
Auto Components 0.8%		
Aisin Seiki Co., Ltd.	2,664	113,703
Bridgestone Corp.	7,805	289,498
Cie Generale des Etablissements Michelin	243	25,429
Delphi Automotive PLC	3,154	268,374
Denso Corp.	79	3,948
Goodyear Tire & Rubber Co.	4,300	129,645
Johnson Controls, Inc.	1,959	97,029
Lear Corp.	1,300	145,938
Magna International, Inc.	2,352	132,006
Sumitomo Electric Industries Ltd.	16,605	256,993
Sumitomo Rubber Industries Ltd.	12,693	197,318
Toyota Industries Corp.	79	4,521
Yokohama Rubber Co., Ltd.	11,543	232,384
		1,896,786
Automobiles 1.7%		
Bayerische Motoren Werke (BMW) AG	1,177	128,745
Daihatsu Motor Co., Ltd.	7,600	108,310
Daimler AG (Registered)	1,727	157,419
Ford Motor Co.	29,568	443,816
Fuji Heavy Industries Ltd.	5,600	207,138
General Motors Co.	14,040	467,953
Honda Motor Co., Ltd.	10,350	335,975
Isuzu Motors Ltd.	15,700	206,845
Mazda Motor Corp.	3,700	72,661
Mitsubishi Motors Corp.	23,638	201,569
Nissan Motor Co., Ltd.	46,585	486,583
Renault SA	3,333	345,760
Toyota Motor Corp.	6,190	415,673
Volkswagen AG	2,482	577,178
		4,155,625
Hotels, Restaurants & Leisure 0.5%		
Carnival Corp.	4,858	239,937
Compass Group PLC	710	11,754
Dawn Holdings, Inc.* (a)	1	940
McDonald's Corp.	3,056	290,534
Royal Caribbean Cruises Ltd.	799	62,873
Starbucks Corp.	5,642	302,496
Yum! Brands, Inc.	1,959	176,467
		1,085,001
Household Durables 0.3%		
Mohawk Industries, Inc.*	784	149,666
Persimmon PLC	6,152	190,373
Sekisui House Ltd.	13,454	214,214
Toll Brothers, Inc.*	500	19,095
Whirlpool Corp.	446	77,180
		650,528
Leisure Products 0.0%		
Hasbro, Inc. (b)	921	**68,881**
Media 1.5%		
CBS Corp. "B"	1,176	65,268
Comcast Corp. "A" (b)	7,914	474,365
Comcast Corp. "A"	6,974	419,416
DIRECTV*	1,545	143,361
Discovery Communications, Inc. "A"* (b)	4,200	139,692
Discovery Communications, Inc. "C"*	6,500	202,020
News Corp. "A"*	5,485	80,026
Omnicom Group, Inc.	627	43,570
Scripps Networks Interactive, Inc. "A"	2,273	148,586
SES SA	5	168
Shaw Communications, Inc. "B"	7,444	162,111
Sky PLC	10,533	171,358
Thomson Reuters Corp.	4,231	161,110
Time Warner Cable, Inc.	1,254	223,425
Time Warner, Inc.	4,047	353,748
Twenty-First Century Fox, Inc. "A"	3,056	99,458
Twenty-First Century Fox, Inc. "B"	4,701	151,466
Viacom, Inc. "B"	1,881	121,588
Walt Disney Co.	3,683	420,378
WPP PLC	4,538	101,714
		3,682,828
Multiline Retail 0.4%		
Canadian Tire Corp., Ltd. "A"	157	16,791
Dollar General Corp.	1,959	152,293
Kohl's Corp. (b)	3,291	206,050
Macy's, Inc.	2,194	148,029
Target Corp.	3,683	300,643
		823,806
Specialty Retail 0.7%		
Advance Auto Parts, Inc.	1,200	191,148
AutoZone, Inc.*	314	209,407
Bed Bath & Beyond, Inc.* (b)	941	64,910
Best Buy Co., Inc.	4,800	156,528
GameStop Corp. "A" (b)	6,792	291,784
Hikari Tsushin, Inc.	1,900	128,508
Home Depot, Inc.	2,038	226,483
Lowe's Companies, Inc.	1,332	89,204
O'Reilly Automotive, Inc.*	314	70,958
The Gap, Inc.	862	32,903
TJX Companies, Inc.	1,567	103,688
		1,565,521
Textiles, Apparel & Luxury Goods 0.2%		
Michael Kors Holdings Ltd.*	706	29,716
NIKE, Inc. "B"	564	60,923
Swatch Group AG (Bearer)	205	79,777
Swatch Group AG (Registered)	1,724	129,667
VF Corp.	2,642	184,253
Yue Yuen Industrial (Holdings) Ltd.	18,804	62,932
		547,268
Consumer Staples 4.5%		
Beverages 0.7%		
Anheuser-Busch InBev NV	450	53,689
Carlsberg AS "B"	1,729	156,638
Coca-Cola Co.	6,268	245,894
Constellation Brands, Inc. "A"	2,100	243,642
Diageo PLC	2,821	81,594
Dr. Pepper Snapple Group, Inc.	2,586	188,519
Heineken Holding NV	1,747	122,774
Heineken NV	355	26,984
Molson Coors Brewing Co. "B"	2,899	202,379
PepsiCo, Inc.	3,567	332,944
		1,655,057

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

	Shares	Value ($)
Food & Staples Retailing 1.4%		
Aeon Co., Ltd.	2,415	34,335
Alimentation Couche-Tard, Inc. "B"	3,152	134,837
Casino Guichard-Perrachon SA	524	39,680
Costco Wholesale Corp.	1,332	179,900
CVS Health Corp.	4,342	455,389
Empire Co., Ltd. "A"	3,134	220,735
George Weston Ltd.	1,848	145,162
ICA Gruppen AB	4,973	176,502
J Sainsbury PLC	52,473	218,495
Koninklijke Ahold NV	4,417	82,592
Kroger Co.	3,977	288,372
Lawson, Inc.	862	59,117
Loblaw Companies Ltd.	1,756	88,686
Metro, Inc.	3,996	107,242
Seven & I Holdings Co., Ltd.	1,567	67,487
Sysco Corp.	3,761	135,772
Wal-Mart Stores, Inc.	6,112	433,524
Walgreens Boots Alliance, Inc.	2,245	189,568
Wesfarmers Ltd.	3,813	114,959
WM Morrison Supermarkets PLC	60,530	171,670
Woolworths Ltd.	4,247	88,298
		3,432,322
Food Products 1.3%		
Archer-Daniels-Midland Co.	5,328	256,916
Aryzta AG	1,318	65,031
Bunge Ltd.	3,296	289,389
Chocoladefabriken Lindt & Sprungli AG	23	121,605
ConAgra Foods, Inc.	4,466	195,254
General Mills, Inc.	4,780	266,342
Golden Agri-Resources Ltd.	312,000	94,937
Hormel Foods Corp.	2,038	114,882
Kellogg Co.	2,899	181,767
McCormick & Co., Inc.	941	76,174
Mondelez International, Inc. "A"	7,679	315,914
Nestle SA (Registered)	4,850	349,895
Tate & Lyle PLC	6,434	52,505
The Hershey Co.	706	62,714
The JM Smucker Co.	1,567	169,878
Tyson Foods, Inc. "A"	7,052	300,627
Wilmar International Ltd.	61,112	149,038
		3,062,868
Household Products 0.5%		
Church & Dwight Co., Inc.	1,803	146,277
Clorox Co.	784	81,551
Colgate-Palmolive Co.	2,429	158,881
Kimberly-Clark Corp.	2,038	215,967
Procter & Gamble Co.	4,566	357,244
Reckitt Benckiser Group PLC	1,733	149,475
		1,109,395
Tobacco 0.6%		
Altria Group, Inc.	5,410	264,603
British American Tobacco PLC	4,589	246,475
Imperial Tobacco Group PLC	4,735	228,075
Japan Tobacco, Inc.	5,877	210,109
Philip Morris International, Inc.	3,918	314,106
Reynolds American, Inc.	2,634	196,655
		1,460,023

	Shares	Value ($)
Energy 3.2%		
Energy Equipment & Services 0.3%		
Amec Foster Wheeler PLC	14,420	184,902
Baker Hughes, Inc.	154	9,502
Ensco PLC "A"	5,500	122,485
Halliburton Co.	1,254	54,010
National Oilwell Varco, Inc.	1,754	84,683
Petrofac Ltd.	4,379	63,789
Schlumberger Ltd.	2,273	195,910
		715,281
Oil, Gas & Consumable Fuels 2.9%		
BP PLC	58,111	384,268
Cabot Oil & Gas Corp.	3,996	126,034
Canadian Natural Resources Ltd.	1,646	44,675
Chevron Corp.	3,480	335,715
ConocoPhillips	3,536	217,146
Devon Energy Corp.	1,700	101,133
Enbridge, Inc.	392	18,332
Eni SpA	9,313	164,950
Exxon Mobil Corp.	4,701	391,123
HollyFrontier Corp.	7,389	315,436
Idemitsu Kosan Co., Ltd.	13,827	272,384
Imperial Oil Ltd.	6,974	269,412
JX Holdings, Inc.	73,385	317,887
Kinder Morgan, Inc.	2,935	112,675
Marathon Petroleum Corp.	7,242	378,829
Occidental Petroleum Corp.	3,469	269,784
OMV AG	1,852	51,047
Origin Energy Ltd.	23,178	218,720
Phillips 66	4,075	328,282
Repsol SA	5,901	103,512
Royal Dutch Shell PLC "A"	17,458	491,072
Royal Dutch Shell PLC "B"	14,953	424,950
Spectra Energy Corp.	3,448	112,405
Statoil ASA	6,006	107,898
Suncor Energy, Inc.	4,780	131,651
Tesoro Corp.	3,415	288,260
TonenGeneral Sekiyu KK	6,000	55,905
Total SA	5,089	246,235
TransCanada Corp.	2,273	92,376
Valero Energy Corp.	9,863	617,424
		6,989,520
Financials 14.5%		
Banks 6.8%		
Aozora Bank Ltd.	90,174	340,860
Australia & New Zealand Banking Group Ltd.	8,236	204,887
Banco Bilbao Vizcaya Argentaria SA	9,682	94,727
Bank Hapoalim BM	89,396	481,342
Bank Leumi Le-Israel BM*	140,917	596,203
Bank of America Corp.	18,553	315,772
Bank of East Asia Ltd.	21,938	96,171
Bank of Montreal (b)	5,328	315,713
Bank of Nova Scotia	5,646	291,431
Barclays PLC	73,958	302,170
BB&T Corp.	6,190	249,519
Bendigo & Adelaide Bank Ltd.	5,567	52,688
BNP Paribas SA	4,637	279,833
BOC Hong Kong (Holdings) Ltd.	93,627	391,926
CaixaBank SA	27,919	129,178
Canadian Imperial Bank of Commerce (b)	4,075	300,388
CIT Group, Inc.	2,682	124,686

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

	Shares	Value ($)
Citigroup, Inc.	10,048	555,051
Citizens Financial Group, Inc. (b)	12,900	352,299
Comerica, Inc.	1,097	56,298
Commerzbank AG*	10,207	130,571
Commonwealth Bank of Australia	2,037	133,943
Credit Agricole SA	14,547	216,118
Danske Bank AS	11,160	327,067
DBS Group Holdings Ltd.	20,371	313,790
Fifth Third Bancorp.	9,903	206,180
Hang Seng Bank Ltd.	2,224	43,544
HSBC Holdings PLC	57,583	515,337
Huntington Bancshares, Inc.	17,000	192,270
ING Groep NV (CVA)	3,416	56,050
Intesa Sanpaolo SpA (RSP)	55,959	178,899
JPMorgan Chase & Co.	6,967	472,084
KBC Groep NV	3,263	217,956
KeyCorp	12,301	184,761
Lloyds Banking Group PLC	166,742	223,329
M&T Bank Corp. (b)	1,959	244,738
Mitsubishi UFJ Financial Group, Inc.	36,354	262,279
Mizrahi Tefahot Bank Ltd.	17,095	212,023
Mizuho Financial Group, Inc.	132,273	286,995
National Australia Bank Ltd.	6,869	176,738
National Bank of Canada	5,205	195,531
Natixis SA	12,868	92,478
Nordea Bank AB	21,868	272,815
Oversea-Chinese Banking Corp., Ltd.	25,855	195,553
People's United Financial, Inc.	14,025	227,345
PNC Financial Services Group, Inc.	4,780	457,207
Regions Financial Corp.	31,810	329,552
Resona Holdings, Inc.	47,156	258,324
Royal Bank of Canada	4,858	297,081
Royal Bank of Scotland Group PLC*	3,425	18,842
Shinsei Bank Ltd.	74,000	149,828
Skandinaviska Enskilda Banken AB "A"	13,319	170,093
Societe Generale	6,354	295,759
Standard Chartered PLC	9,224	147,565
Sumitomo Mitsui Financial Group, Inc.	9,207	412,302
SunTrust Banks, Inc.	9,077	390,493
Svenska Handelsbanken AB "A"	4,464	65,157
Swedbank AB "A"	8,410	196,065
The Chugoku Bank Ltd.	7,600	120,159
The Toronto-Dominion Bank (b)	8,229	349,452
U.S. Bancorp.	8,070	350,238
United Overseas Bank Ltd.	9,402	161,311
Wells Fargo & Co.	10,969	616,897
Westpac Banking Corp.	6,452	160,301
Yamaguchi Financial Group, Inc.	5,021	62,691
		16,118,853
Capital Markets 0.7%		
3i Group PLC	33,208	268,574
Ameriprise Financial, Inc.	627	78,331
Bank of New York Mellon Corp.	3,369	141,397
BlackRock, Inc.	314	108,638
Credit Suisse Group AG (Registered)	13,132	361,028
Morgan Stanley	8,070	313,035
State Street Corp.	1,724	132,748
The Goldman Sachs Group, Inc.	1,097	229,042
UBS Group AG (Registered)	6,904	146,432
		1,779,225
Consumer Finance 0.4%		
Ally Financial, Inc.*	11,200	251,216
American Express Co.	549	42,668
Capital One Financial Corp.	3,526	310,182
Discover Financial Services	1,959	112,878
Navient Corp.	6,999	127,452
		844,396
Diversified Financial Services 0.7%		
Berkshire Hathaway, Inc. "B"*	1,534	208,793
CME Group, Inc.	2,038	189,656
EXOR SpA	778	37,042
Industrivarden AB "C"	21,624	407,341
Intercontinental Exchange, Inc.	314	70,213
Investor AB "B"	6,167	229,661
Leucadia National Corp.	627	15,224
Pargesa Holding SA (Bearer)	2,284	153,111
The NASDAQ OMX Group, Inc.	1,176	57,401
Voya Financial, Inc.	4,800	223,056
		1,591,498
Insurance 5.2%		
ACE Ltd.	3,526	358,524
Aegon NV	37,007	271,588
Aflac, Inc.	4,578	284,752
Ageas	7,367	283,937
Alleghany Corp.*	471	220,786
Allianz SE (Registered)	1,307	203,567
Allstate Corp.	2,282	148,033
American International Group, Inc.	7,444	460,188
Aon PLC	471	46,949
Arch Capital Group Ltd.*	2,586	173,158
Assicurazioni Generali SpA	11,479	206,332
Assurant, Inc.	3,134	209,978
Aviva PLC	16,269	125,576
AXA SA	10,958	276,242
Axis Capital Holdings Ltd.	5,314	283,608
Baloise Holding AG (Registered)	3,275	398,947
Chubb Corp.	3,213	305,685
CNP Assurances	6,858	114,517
Delta Lloyd NV	10,049	165,123
Direct Line Insurance Group PLC	28,200	148,792
Everest Re Group Ltd.	2,269	412,981
Fairfax Financial Holdings Ltd.	400	197,239
FNF Group	4,700	173,853
Great-West Lifeco, Inc.	4,466	130,011
Hannover Rueck SE	2,286	221,615
Hartford Financial Services Group, Inc.	6,626	275,443
Insurance Australia Group Ltd.	2,518	10,864
Intact Financial Corp.	3,134	217,774
Legal & General Group PLC	1,991	7,778
Lincoln National Corp.	4,351	257,666
Loews Corp.	5,877	226,323
Manulife Financial Corp.	4,100	76,190
Mapfre SA	24,168	83,096
Marsh & McLennan Companies, Inc.	1,097	62,200
MetLife, Inc.	6,836	382,748
Muenchener Rueckversicherungs-Gesellschaft AG (Registered)	1,302	230,838
NN Group NV	12,080	339,634
Old Mutual PLC	11,627	36,848

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

	Shares	Value ($)
PartnerRe Ltd.	2,506	322,021
Power Corp. of Canada	7,229	184,863
Power Financial Corp.	4,075	117,030
Principal Financial Group, Inc.	1,097	56,265
Progressive Corp.	4,936	137,369
Prudential Financial, Inc.	4,051	354,543
RenaissanceRe Holdings Ltd.	2,026	205,659
Sampo Oyj "A"	3,489	164,267
SCOR SE	8,888	313,444
Sompo Japan Nipponkoa Holdings, Inc.	3,800	140,023
Suncorp Group Ltd.	9,529	98,879
Swiss Life Holding AG (Registered)	1,932	442,097
The Travelers Companies, Inc.	3,918	378,714
Tokio Marine Holdings, Inc.	4,300	179,461
Torchmark Corp.	2,821	164,239
Unum Group	7,757	277,313
W.R. Berkley Corp.	5,015	260,429
XL Group PLC	6,504	241,949
Zurich Insurance Group AG	1,371	417,371
		12,485,319
Real Estate Investment Trusts 0.3%		
AvalonBay Communities, Inc. (REIT)	800	127,896
Crown Castle International Corp. (REIT)	1,600	128,480
Dexus Property Group (REIT)	12,966	73,184
Federation Centres (REIT)	44,060	99,502
GPT Group (REIT)	19,958	65,941
H&R Real Estate Investment Trust (REIT) (Units)	5,686	102,157
HCP, Inc. (REIT)	3,600	131,292
Prologis, Inc. (REIT)	3,100	115,010
		843,462
Real Estate Management & Development 0.4%		
First Capital Realty, Inc.	6,425	91,977
Henderson Land Development Co., Ltd.	16,251	111,695
New World Development Co., Ltd.	47,793	62,869
Sun Hung Kai Properties Ltd.	12,536	203,945
Swire Pacific Ltd. "A"	13,320	168,008
Swiss Prime Site AG (Registered)	1,681	127,526
Wharf Holdings Ltd.	7,835	52,351
Wheelock & Co., Ltd.	41,103	211,262
		1,029,633
Thrifts & Mortgage Finance 0.0%		
New York Community Bancorp., Inc.	1,399	**25,714**
Health Care 5.4%		
Biotechnology 1.3%		
Actelion Ltd. (Registered)	584	85,307
Alexion Pharmaceuticals, Inc.*	941	170,105
Amgen, Inc.	2,283	350,486
Biogen, Inc.*	1,127	455,240
Celgene Corp.*	4,142	479,374
CSL Ltd.	4,391	293,304
Gilead Sciences, Inc.	4,914	575,331
Medivation, Inc.*	1,800	205,560
Regeneron Pharmaceuticals, Inc.*	500	255,065
United Therapeutics Corp.*	1,200	208,740
		3,078,512
Health Care Equipment & Supplies 0.4%		
Abbott Laboratories	5,642	276,910
Baxter International, Inc.	2,664	186,294
Becton, Dickinson & Co.	1,165	165,022
Medtronic PLC	3,683	272,910
Stryker Corp.	1,190	113,728
Zimmer Biomet Holdings, Inc.	549	59,967
		1,074,831
Health Care Providers & Services 1.3%		
Aetna, Inc.	2,718	346,436
AmerisourceBergen Corp.	1,411	150,046
Anthem, Inc.	2,553	419,050
Cardinal Health, Inc.	1,959	163,870
CIGNA Corp.	2,508	406,296
Express Scripts Holding Co.*	3,134	278,738
HCA Holdings, Inc.*	1,213	110,043
Humana, Inc.	894	171,004
Laboratory Corp. of America Holdings*	862	104,492
McKesson Corp.	1,019	229,081
Omnicare, Inc.	941	88,689
Quest Diagnostics, Inc.	2,331	169,044
UnitedHealth Group, Inc.	3,201	390,522
		3,027,311
Life Sciences Tools & Services 0.1%		
Thermo Fisher Scientific, Inc.	2,038	**264,451**
Pharmaceuticals 2.3%		
AbbVie, Inc.	2,741	184,168
Allergan PLC*	1,387	420,899
AstraZeneca PLC	1,718	108,552
Bristol-Myers Squibb Co.	3,369	224,173
Eli Lilly & Co.	3,213	268,254
GlaxoSmithKline PLC	11,399	237,209
Hospira, Inc.*	3,900	345,969
Jazz Pharmaceuticals PLC*	1,100	193,677
Johnson & Johnson	3,605	351,343
Mallinckrodt PLC* (b)	2,800	329,616
Merck & Co., Inc.	5,563	316,702
Mylan NV* (b)	1,176	79,804
Novartis AG (Registered)	3,719	366,320
Novo Nordisk AS ''B"	3,854	210,334
Perrigo Co. PLC	392	72,453
Pfizer, Inc.	13,555	454,499
Roche Holding AG (Genusschein)	1,112	311,783
Sanofi	1,531	149,987
Shire PLC	2,965	236,886
Teva Pharmaceutical Industries Ltd.	5,337	314,340
Valeant Pharmaceuticals International, Inc.*	1,200	266,200
		5,443,168
Industrials 5.3%		
Aerospace & Defense 0.7%		
BAE Systems PLC	11,961	84,711
Boeing Co.	1,489	206,554
General Dynamics Corp.	67	9,493
Honeywell International, Inc.	2,821	287,657
L-3 Communications Holdings, Inc.	281	31,860
Lockheed Martin Corp.	767	142,585
Northrop Grumman Corp.	938	148,795
Precision Castparts Corp.	627	125,319
Raytheon Co.	2,664	254,892
Rockwell Collins, Inc.	941	86,901
Thales SA	506	30,520
United Technologies Corp.	2,586	286,865
		1,696,152

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

	Shares	Value ($)
Air Freight & Logistics 0.2%		
FedEx Corp.	784	133,594
Royal Mail PLC	23,937	193,041
United Parcel Service, Inc. "B"	1,176	113,966
		440,601
Airlines 1.0%		
American Airlines Group, Inc.	7,700	307,500
ANA Holdings, Inc.	59,000	160,303
Cathay Pacific Airways Ltd.	127,791	314,622
Delta Air Lines, Inc.	6,644	272,936
Deutsche Lufthansa AG (Registered)*	22,684	293,408
easyJet PLC	3,918	95,361
Japan Airlines Co., Ltd.	9,500	332,430
Singapore Airlines Ltd.	6,474	51,633
Southwest Airlines Co.	6,653	220,148
United Continental Holdings, Inc.*	6,808	360,892
		2,409,233
Building Products 0.0%		
Congoleum Corp.*	3,800	**0**
Commercial Services & Supplies 0.2%		
G4S PLC	30	126
Quad Graphics, Inc.	13	241
Republic Services, Inc.	5,171	202,548
Tyco International PLC	2,351	90,467
Waste Management, Inc.	2,194	101,692
		395,074
Electrical Equipment 0.2%		
ABB Ltd. (Registered)	8,638	180,596
AMETEK, Inc.	1,332	72,967
Eaton Corp. PLC	421	28,413
Emerson Electric Co.	2,273	125,992
		407,968
Industrial Conglomerates 0.5%		
3M Co.	824	127,143
CK Hutchison Holdings Ltd.	16,996	250,833
Danaher Corp.	2,664	228,012
General Electric Co.	9,038	240,140
Keppel Corp., Ltd.	21,000	128,232
Roper Technologies, Inc.	862	148,661
Sembcorp Industries Ltd.	21,938	63,393
Siemens AG (Registered)	1,248	125,671
		1,312,085
Machinery 0.5%		
AGCO Corp. (b)	3,761	213,549
Caterpillar, Inc.	862	73,115
Deere & Co.	2,096	203,417
Illinois Tool Works, Inc.	549	50,393
PACCAR, Inc.	1,254	80,018
Schindler Holding AG (Registered)	503	82,094
SKF AB "B"	29	660
Stanley Black & Decker, Inc.	1,332	140,180
Yangzijiang Shipbuilding Holdings Ltd.	286,107	300,958
		1,144,384
Marine 0.5%		
A P Moller-Maersk AS "A"	219	384,371
A P Moller-Maersk AS "B"	186	337,129
Mitsui O.S.K Lines Ltd.	80,000	256,846
Nippon Yusen Kabushiki Kaisha	83,050	231,822
		1,210,168

	Shares	Value ($)
Professional Services 0.1%		
Adecco SA (Registered)	393	31,842
Nielsen NV	4,145	185,572
		217,414
Road & Rail 0.4%		
Canadian National Railway Co.	236	13,616
CSX Corp.	3,840	125,376
East Japan Railway Co.	1,097	98,846
MTR Corp., Ltd.	27,814	129,315
Norfolk Southern Corp.	862	75,304
Union Pacific Corp.	2,194	209,242
West Japan Railway Co.	3,761	241,343
		893,042
Trading Companies & Distributors 1.0%		
ITOCHU Corp.	41,839	553,748
Marubeni Corp.	100,549	578,314
Mitsubishi Corp.	14,728	324,677
Mitsui & Co., Ltd.	28,151	383,212
Noble Group Ltd.	193,000	109,029
Sumitomo Corp.	29,466	343,600
W.W. Grainger, Inc. (b)	627	148,379
		2,440,959

Information Technology 6.6%

	Shares	Value ($)
Communications Equipment 0.7%		
Cisco Systems, Inc.	17,899	491,506
Harris Corp.	1,569	120,672
Juniper Networks, Inc.	7,764	201,631
Motorola Solutions, Inc.	790	45,299
Nokia Oyj	19,776	134,356
QUALCOMM, Inc.	8,070	505,424
Telefonaktiebolaget LM Ericsson "B"	19,294	199,657
		1,698,545
Electronic Equipment, Instruments & Components 0.7%		
Amphenol Corp. "A"	1,568	90,897
Arrow Electronics, Inc.*	2,528	141,062
Avnet, Inc.	6,660	273,793
Corning, Inc.	9,440	186,251
Flextronics International Ltd.*	14,608	165,217
Hitachi Ltd.	40,485	267,466
Murata Manufacturing Co., Ltd.	706	123,771
TE Connectivity Ltd.	4,388	282,148
		1,530,605
Internet Software & Services 0.6%		
eBay, Inc.*	2,942	177,226
Facebook, Inc. "A"*	5,469	469,049
Google, Inc. "A"*	792	427,712
Google, Inc. "C"*	485	252,447
LinkedIn Corp. "A"*	127	26,242
VeriSign, Inc.* (b)	521	32,156
Yahoo!, Inc.*	3,400	133,586
		1,518,418
IT Services 1.9%		
Accenture PLC "A"	4,075	394,378
Alliance Data Systems Corp.*	549	160,275
Atos SE	1,677	125,281
Automatic Data Processing, Inc.	3,232	259,303
CGI Group, Inc. "A"*	4,701	183,862
Cognizant Technology Solutions Corp. "A"*	3,291	201,047
Computer Sciences Corp.	3,840	252,058

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

	Shares	Value ($)
Fidelity National Information Services, Inc.	5,798	358,316
Fiserv, Inc.*	3,761	311,524
Fujitsu Ltd.	26,000	145,907
International Business Machines Corp.	3,056	497,089
Itochu Techno-Solutions Corp.	1,200	29,954
MasterCard, Inc. "A" (b)	3,134	292,966
Nomura Research Institute Ltd.	1,803	70,691
Paychex, Inc.	3,056	143,265
Total System Services, Inc.	5,250	219,293
Vantiv, Inc. "A"*	3,369	128,662
Visa, Inc. "A"	4,184	280,956
Western Union Co. (b)	12,458	253,271
Xerox Corp.	22,704	241,571
		4,549,669
Semiconductors & Semiconductor Equipment 0.7%		
Analog Devices, Inc.	2,586	165,983
ASML Holding NV	15	1,558
Avago Technologies Ltd.	1,646	218,803
Broadcom Corp. "A"	1,409	72,549
Intel Corp.	10,673	324,619
KLA-Tencor Corp.	456	25,632
Lam Research Corp.	64	5,206
Marvell Technology Group Ltd.	4,623	60,954
Maxim Integrated Products, Inc.	4,388	151,715
Microchip Technology, Inc. (b)	3,291	156,076
Micron Technology, Inc.*	16,693	314,496
Qorvo, Inc.*	1,800	144,486
Texas Instruments, Inc.	1,646	84,786
		1,726,863
Software 1.1%		
Activision Blizzard, Inc.	10,127	245,175
ANSYS, Inc.*	784	71,532
CA, Inc.	7,236	211,942
Electronic Arts, Inc.*	3,600	239,400
Intuit, Inc.	1,034	104,196
Microsoft Corp.	10,949	483,398
Nexon Co., Ltd.	3,794	52,379
NICE Systems Ltd.	2,086	133,042
Nuance Communications, Inc.*	11,800	206,618
Oracle Corp.	6,713	270,534
SAP SE	751	52,374
Symantec Corp.	8,041	186,953
Synopsys, Inc.*	5,407	273,865
The Sage Group PLC	1,325	10,658
VMware, Inc. "A"*	784	67,220
		2,609,286
Technology Hardware, Storage & Peripherals 0.9%		
Apple, Inc.	5,178	649,451
Canon, Inc.	6,974	227,435
EMC Corp.	8,058	212,651
Hewlett-Packard Co.	9,206	276,272
NetApp, Inc.	2,586	81,614
Ricoh Co., Ltd.	26,547	275,989
Seagate Technology PLC	3,683	174,942
Seiko Epson Corp.	8,500	151,368
Western Digital Corp.	1,959	153,625
		2,203,347

Materials 2.4%

	Shares	Value ($)
Chemicals 0.9%		
Ashland, Inc.	862	105,078
BASF SE	8	703
Celanese Corp. "A"	2,200	158,136
CF Industries Holdings, Inc.	1,180	75,850
Dow Chemical Co.	3,784	193,627
E.I. du Pont de Nemours & Co.	1,489	95,222
Ecolab, Inc.	392	44,323
GEO Specialty Chemicals, Inc.*	19,324	13,558
Israel Chemicals Ltd.	17,163	119,994
Kuraray Co., Ltd.	16,800	206,101
LyondellBasell Industries NV "A"	2,873	297,413
Mitsubishi Gas Chemical Co., Inc.	16,000	89,951
Monsanto Co.	1,019	108,615
Praxair, Inc.	549	65,633
Solvay SA	986	135,723
Sumitomo Chemical Co., Ltd.	41,000	247,103
The Mosaic Co.	5,000	234,250
		2,191,280
Construction Materials 0.1%		
Fletcher Building Ltd.	8,805	48,412
Holcim Ltd. (Registered)	1,198	88,416
Taiheiyo Cement Corp.	76,000	222,464
		359,292
Containers & Packaging 0.1%		
Rock-Tenn Co. "A"	2,356	**141,831**
Metals & Mining 1.1%		
Alcoa, Inc.	11,400	127,110
Anglo American PLC	21,190	305,846
Barrick Gold Corp.	15,984	170,846
BHP Billiton Ltd.	1,942	39,799
BHP Billiton PLC	3,311	64,837
Boliden AB	5,903	107,504
Glencore PLC	32,398	129,571
Goldcorp, Inc.	5,485	89,016
JFE Holdings, Inc.	9,500	211,609
Mitsubishi Materials Corp.	18,804	72,390
Newcrest Mining Ltd.*	20,735	207,229
Newmont Mining Corp.	7,983	186,483
Nippon Steel & Sumitomo Metal Corp.	53,000	137,740
Nucor Corp.	4,075	179,585
Rio Tinto PLC	3,449	141,197
Silver Wheaton Corp.	9,011	156,195
South32 Ltd.*	1,942	2,682
Sumitomo Metal Mining Co., Ltd.	15,000	229,062
		2,558,701
Paper & Forest Products 0.2%		
International Paper Co.	2,874	136,774
UPM-Kymmene Oyj	12,803	226,182
		362,956

Telecommunication Services 3.3%

	Shares	Value ($)
Diversified Telecommunication Services 2.7%		
AT&T, Inc.	18,726	665,147
BCE, Inc.	7,365	312,880
BT Group PLC	57,981	409,493
CenturyLink, Inc.	5,691	167,202
Deutsche Telekom AG (Registered)	10,731	184,569
Elisa Oyj	800	25,329
HKT Trust & HKT Ltd. (Units)	147,000	173,198
Inmarsat PLC	11,052	158,868
Level 3 Communications, Inc.*	3,600	189,612
Nippon Telegraph & Telephone Corp.	12,566	456,891
Orange SA	11,104	170,277

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

	Shares	Value ($)
PCCW Ltd.	457,633	273,317
Proximus	1,992	70,167
Singapore Telecommunications Ltd.	76,045	240,299
Spark New Zealand Ltd.	56,978	107,937
Swisscom AG (Registered)	606	339,375
TDC AS	33,026	241,753
Telecom Italia SpA*	168,638	213,564
Telecom Italia SpA (RSP)	248,767	253,092
Telefonica SA	14,181	201,283
Telenor ASA	8,848	193,790
TeliaSonera AB	52,444	308,615
Telstra Corp., Ltd.	66,244	314,437
TELUS Corp.	7,287	251,049
Verizon Communications, Inc.	10,902	508,142
		6,430,286
Wireless Telecommunication Services 0.6%		
KDDI Corp.	14,300	346,463
Millicom International Cellular SA (SDR)	1,478	109,006
NTT DoCoMo, Inc.	16,169	310,330
Rogers Communications, Inc. "B" (b)	6,503	230,651
SoftBank Corp.	471	27,834
T-Mobile U.S., Inc.*	4,600	178,342
Vodafone Group PLC	77,763	280,302
		1,482,928
Utilities 4.0%		
Electric Utilities 2.0%		
American Electric Power Co., Inc.	4,388	232,432
Cheung Kong Infrastructure Holdings Ltd.	28,556	221,666
CLP Holdings Ltd.	36,469	310,150
Duke Energy Corp.	5,407	381,842
E.ON SE	3,110	41,467
Edison International	3,056	169,852
EDP — Energias de Portugal SA	53,479	202,705
Electricite de France SA	10,019	223,504
Enel SpA	13,335	60,327
Entergy Corp.	2,971	209,456
Eversource Energy	3,369	152,986
Exelon Corp.	10,603	333,146
FirstEnergy Corp.	4,936	160,667
Fortum Oyj	7,154	127,026
Iberdrola SA	14,717	99,046
NextEra Energy, Inc.	2,743	268,896
OGE Energy Corp.	6,660	190,276
Pepco Holdings, Inc.	5,200	140,088
Pinnacle West Capital Corp.	2,555	145,354
Power Assets Holdings Ltd.	6,747	61,557
PPL Corp.	6,112	180,121
Southern Co.	6,245	261,666
SSE PLC	7,389	178,138
Tokyo Electric Power Co., Inc.*	32,800	179,548
Xcel Energy, Inc.	6,738	216,829
		4,748,745
Gas Utilities 0.1%		
Enagas SA	22	599
Osaka Gas Co., Ltd.	31,000	122,686
Tokyo Gas Co., Ltd.	22,000	117,028
		240,313

	Shares	Value ($)
Independent Power & Renewable Eletricity Producers 0.3%		
AES Corp.	19,014	252,126
Calpine Corp.*	15,500	278,845
Electric Power Development Co., Ltd.	2,602	92,193
Meridian Energy Ltd.	37,409	54,756
NRG Energy, Inc.	8,000	183,040
		860,960
Multi-Utilities 1.5%		
AGL Energy Ltd.	20,375	244,438
Alliant Energy Corp.	2,508	144,762
Ameren Corp.	5,955	224,384
Atco Ltd. "I"	3,000	94,852
CenterPoint Energy, Inc.	8,900	169,367
Centrica PLC	42,247	175,472
CMS Energy Corp.	2,664	84,822
Consolidated Edison, Inc.	4,310	249,463
Dominion Resources, Inc.	3,291	220,069
DTE Energy Co.	2,194	163,760
GDF Suez	5,853	108,583
National Grid PLC	19,631	252,218
NiSource, Inc.	2,150	98,019
PG&E Corp.	6,738	330,836
Public Service Enterprise Group, Inc. (b)	5,720	224,682
SCANA Corp. (b)	3,605	182,593
Sempra Energy	1,567	155,039
WEC Energy Group, Inc.	8,567	385,247
		3,508,606
Water Utilities 0.1%		
American Water Works Co., Inc.	2,803	**136,310**
Total Common Stocks (Cost $117,728,599)		**131,933,104**

Preferred Stocks 0.6%

Consumer Discretionary

	Shares	Value ($)
Ally Financial, Inc. Series G, 144A, 7.0%	38	38,588
Bayerische Motoren Werke (BMW) AG	4,148	351,522
Porsche Automobil Holding SE	7,216	611,064
Volkswagen AG	1,914	444,640
Total Preferred Stocks (Cost $1,434,243)		**1,445,814**

Rights 0.0%

Consumer Staples 0.0%

	Shares	Value ($)
Safeway Casa Ley, Expiration Date 1/30/2018*	7,499	7,611
Safeway PDC LLC, Expiration Date 1/30/2017*	7,499	366
		7,977
Energy 0.0%		
Repsol SA, Expiration Date 7/3/2015*	5,901	**3,059**
Total Rights (Cost $11,216)		**11,036**

Warrants 0.0%

Materials

	Shares	Value ($)
Hercules Trust II, Expiration Date 3/31/2029* (Cost $30,283)	170	**1,001**

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

	Principal Amount ($)(c)	Value ($)
Corporate Bonds 22.4%		
Consumer Discretionary 3.1%		
1011778 BC ULC, 144A, 4.625%, 1/15/2022	35,000	34,475
Ally Financial, Inc.:		
3.25%, 2/13/2018	105,000	104,344
4.125%, 3/30/2020 (b)	85,000	84,840
AmeriGas Finance LLC:		
6.75%, 5/20/2020	110,000	115,775
7.0%, 5/20/2022	195,000	206,700
Apex Tool Group LLC, 144A, 7.0%, 2/1/2021	50,000	44,500
APX Group, Inc., 6.375%, 12/1/2019	50,000	48,500
Ashtead Capital, Inc., 144A, 6.5%, 7/15/2022	80,000	84,800
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	80,000	74,400
Avis Budget Car Rental LLC:		
144A, 5.25%, 3/15/2025	135,000	126,731
5.5%, 4/1/2023	50,000	49,375
Bed Bath & Beyond, Inc.:		
4.915%, 8/1/2034	80,000	78,078
5.165%, 8/1/2044	100,000	99,276
Block Communications, Inc., 144A, 7.25%, 2/1/2020	20,000	20,400
Boyd Gaming Corp., 6.875%, 5/15/2023	40,000	41,000
CCO Holdings LLC:		
144A, 5.125%, 5/1/2023	115,000	111,838
144A, 5.375%, 5/1/2025	85,000	82,769
144A, 5.875%, 5/1/2027	140,000	136,675
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	385,000	349,628
144A, 6.375%, 9/15/2020	200,000	198,650
Clear Channel Worldwide Holdings, Inc.:		
Series A, 6.5%, 11/15/2022	65,000	66,625
Series B, 6.5%, 11/15/2022	370,000	385,262
Series A, 7.625%, 3/15/2020	10,000	10,325
Series B, 7.625%, 3/15/2020	255,000	265,837
Cogeco Cable, Inc., 144A, 4.875%, 5/1/2020	5,000	5,075
Columbus International, Inc., 144A, 7.375%, 3/30/2021	250,000	268,750
D.R. Horton, Inc., 4.0%, 2/15/2020	35,000	34,815
Dana Holding Corp., 5.5%, 12/15/2024	80,000	78,600
Delphi Corp., 5.0%, 2/15/2023	70,000	74,550
DISH DBS Corp.:		
4.25%, 4/1/2018	70,000	71,225
5.0%, 3/15/2023	715,000	661,375
7.875%, 9/1/2019	270,000	299,430
Family Tree Escrow LLC:		
144A, 5.25%, 3/1/2020	145,000	151,706
144A, 5.75%, 3/1/2023	122,500	128,012
Fiat Chrysler Automobiles NV, 144A, 4.5%, 4/15/2020	100,000	99,500
Global Partners LP, 144A, 7.0%, 6/15/2023	70,000	68,775
Group 1 Automotive, Inc., 5.0%, 6/1/2022 (b)	95,000	94,525
HD Supply, Inc., 11.5%, 7/15/2020	130,000	150,150
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	40,000	42,000
iHeartCommunications, Inc.:		
9.0%, 12/15/2019 (b)	250,000	238,250
11.25%, 3/1/2021	70,000	67,988
Jo-Ann Stores Holdings, Inc., 144A, 9.75%, 10/15/2019 (PIK)	40,000	35,800
Live Nation Entertainment, Inc., 144A, 7.0%, 9/1/2020	90,000	95,625
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	40,000	39,850
Mediacom Broadband LLC, 6.375%, 4/1/2023	35,000	35,000
MGM Resorts International:		
6.625%, 12/15/2021	250,000	261,250
6.75%, 10/1/2020 (b)	130,000	137,800
8.625%, 2/1/2019	240,000	271,200
Numericable-SFR, 144A, 6.0%, 5/15/2022	200,000	197,125
Pinnacle Entertainment, Inc., 6.375%, 8/1/2021	45,000	47,756
Quebecor Media, Inc., 5.75%, 1/15/2023	50,000	49,875
Sabre GLBL, Inc., 144A, 5.375%, 4/15/2023	5,000	4,925
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021	35,000	35,350
Serta Simmons Holdings LLC, 144A, 8.125%, 10/1/2020	55,000	58,025
Sirius XM Radio, Inc., 144A, 5.875%, 10/1/2020	60,000	61,500
Spectrum Brands, Inc., 144A, 5.75%, 7/15/2025	35,000	35,525
Springs Industries, Inc., 6.25%, 6/1/2021	85,000	83,088
Starz LLC, 5.0%, 9/15/2019	40,000	40,500
Suburban Propane Partners LP, 5.75%, 3/1/2025	50,000	49,875
Time Warner Cable, Inc., 7.3%, 7/1/2038	45,000	50,702
Time Warner, Inc.:		
3.6%, 7/15/2025	40,000	38,907
4.85%, 7/15/2045	20,000	19,402
TRI Pointe Holdings, Inc., 4.375%, 6/15/2019	50,000	49,000
Unitymedia Hessen GmbH & Co., KG, 144A, 5.5%, 1/15/2023	200,000	203,875
Viking Cruises Ltd.:		
144A, 6.25%, 5/15/2025	70,000	69,475
144A, 8.5%, 10/15/2022	50,000	55,500
		7,382,459
Consumer Staples 1.0%		
Cencosud SA, 144A, 5.5%, 1/20/2021	250,000	262,673
Chiquita Brands International, Inc., 7.875%, 2/1/2021	20,000	21,550
Cott Beverages, Inc.:		
5.375%, 7/1/2022	160,000	155,200
144A, 6.75%, 1/1/2020	80,000	83,000
HJ Heinz Co.:		
144A, 3.95%, 7/15/2025 (d)	20,000	20,111
144A, 5.2%, 7/15/2045 (d)	10,000	10,248
JBS Investments GmbH, 144A, 7.75%, 10/28/2020	250,000	271,875
JBS U.S.A. LLC:		
144A, 5.75%, 6/15/2025	55,000	54,365
144A, 7.25%, 6/1/2021	145,000	152,794
144A, 8.25%, 2/1/2020	370,000	392,200

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

	Principal Amount ($)(c)	Value ($)
Marfrig Overseas Ltd., 144A, 9.5%, 5/4/2020	100,000	102,170
Minerva Luxembourg SA:		
144A, 7.75%, 1/31/2023	250,000	251,875
144A, 12.25%, 2/10/2022	250,000	275,125
Pilgrim's Pride Corp., 144A, 5.75%, 3/15/2025	55,000	55,550
Reynolds American, Inc.:		
4.45%, 6/12/2025	10,000	10,188
5.85%, 8/15/2045	10,000	10,489
Smithfield Foods, Inc., 6.625%, 8/15/2022	5,000	5,337
The WhiteWave Foods Co., 5.375%, 10/1/2022	80,000	84,400
Tonon Bioenergia SA, 144A, 9.25%, 1/24/2020 (b)	200,000	68,000
		2,287,150
Energy 3.7%		
Afren PLC, 144A, 10.25%, 4/8/2019*	340,000	149,600
Antero Resources Corp.:		
5.125%, 12/1/2022	140,000	132,300
5.375%, 11/1/2021	60,000	57,600
144A, 5.625%, 6/1/2023	55,000	53,144
Baytex Energy Corp.:		
144A, 5.125%, 6/1/2021	30,000	28,125
144A, 5.625%, 6/1/2024	35,000	32,463
Berry Petroleum Co., LLC:		
6.375%, 9/15/2022	50,000	39,000
6.75%, 11/1/2020	50,000	39,500
California Resources Corp.:		
5.0%, 1/15/2020	60,000	52,800
5.5%, 9/15/2021 (b)	143,000	124,439
6.0%, 11/15/2024 (b)	50,000	43,000
Carrizo Oil & Gas, Inc., 6.25%, 4/15/2023	75,000	75,188
Chaparral Energy, Inc., 7.625%, 11/15/2022	85,000	61,200
Chesapeake Energy Corp.:		
5.75%, 3/15/2023 (b)	200,000	181,000
6.125%, 2/15/2021	20,000	18,800
6.625%, 8/15/2020	70,000	68,250
Concho Resources, Inc., 5.5%, 4/1/2023	175,000	175,000
Crestwood Midstream Partners LP, 144A, 6.25%, 4/1/2023	25,000	26,000
DCP Midstream LLC, 144A, 9.75%, 3/15/2019	200,000	232,084
Delek & Avner Tamar Bond Ltd., 144A, 5.082%, 12/30/2023	350,000	351,750
Ecopetrol SA, 5.875%, 5/28/2045	500,000	441,250
Endeavor Energy Resources LP:		
144A, 7.0%, 8/15/2021	85,000	84,575
144A, 8.125%, 9/15/2023	90,000	92,812
EP Energy LLC, 144A, 6.375%, 6/15/2023 (b)	65,000	65,163
EV Energy Partners LP, 8.0%, 4/15/2019	385,000	358,050
GeoPark Latin America Ltd. Agencia en Chile, 144A, 7.5%, 2/11/2020	200,000	173,000
Gulfport Energy Corp., 144A, 6.625%, 5/1/2023	30,000	30,375
Halcon Resources Corp.:		
144A, 8.625%, 2/1/2020	125,000	123,437
8.875%, 5/15/2021	225,000	147,937
9.75%, 7/15/2020	40,000	26,900
Hilcorp Energy I LP:		
144A, 5.0%, 12/1/2024	65,000	60,951
144A, 5.75%, 10/1/2025	100,000	96,000
Holly Energy Partners LP, 6.5%, 3/1/2020	10,000	9,975
Kinder Morgan, Inc.:		
3.05%, 12/1/2019	145,000	144,839
5.55%, 6/1/2045	90,000	83,186
Laredo Petroleum, Inc., 6.25%, 3/15/2023	85,000	86,487
Linn Energy LLC, 6.25%, 11/1/2019	145,000	113,462
MEG Energy Corp., 144A, 7.0%, 3/31/2024	435,000	417,056
Memorial Resource Development Corp., 5.875%, 7/1/2022	65,000	62,771
Murphy Oil U.S.A., Inc., 6.0%, 8/15/2023	85,000	88,187
Newfield Exploration Co., 5.375%, 1/1/2026	40,000	39,600
Noble Holding International Ltd., 4.0%, 3/16/2018	10,000	10,238
Northern Oil & Gas, Inc., 8.0%, 6/1/2020	140,000	127,400
Nostrum Oil & Gas Finance BV, 144A, 6.375%, 2/14/2019	200,000	187,500
Oasis Petroleum, Inc.:		
6.875%, 3/15/2022	190,000	192,850
6.875%, 1/15/2023	70,000	69,125
Offshore Drilling Holding SA, 144A, 8.625%, 9/20/2020	600,000	537,000
ONEOK Partners LP, 4.9%, 3/15/2025 (b)	40,000	39,568
Pacific Rubiales Energy Corp., 144A, 5.375%, 1/26/2019	200,000	164,300
Parsley Energy LLC, 144A, 7.5%, 2/15/2022	10,000	10,147
QGOG Constellation SA, 144A, 6.25%, 11/9/2019	200,000	146,000
Range Resources Corp., 144A, 4.875%, 5/15/2025	60,000	58,284
Regency Energy Partners LP, 5.0%, 10/1/2022	45,000	45,711
Reliance Industries Ltd., 144A, 4.125%, 1/28/2025	250,000	243,885
Rice Energy, Inc., 144A, 7.25%, 5/1/2023	15,000	15,375
RSP Permian, Inc., 144A, 6.625%, 10/1/2022	165,000	168,712
Sabine Pass Liquefaction LLC:		
5.625%, 2/1/2021	175,000	178,500
144A, 5.625%, 3/1/2025	90,000	89,100
5.75%, 5/15/2024	200,000	199,250
SESI LLC, 7.125%, 12/15/2021	205,000	217,300
Seven Generations Energy Ltd., 144A, 6.75%, 5/1/2023	20,000	19,950
Sunoco LP, 144A, 6.375%, 4/1/2023	40,000	41,600
Talisman Energy, Inc., 3.75%, 2/1/2021	120,000	118,797
Talos Production LLC, 144A, 9.75%, 2/15/2018	95,000	82,650
Targa Resources Partners LP, 144A, 4.125%, 11/15/2019	30,000	29,700

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

	Principal Amount ($)(c)	Value ($)
TerraForm Power Operating LLC, 144A, 5.875%, 2/1/2023	125,000	126,875
Transocean, Inc., 4.3%, 10/15/2022 (b)	370,000	278,425
Transportadora de Gas Internacional SA ESP, 144A, 5.7%, 3/20/2022	200,000	209,750
Triangle U.S.A. Petroleum Corp., 144A, 6.75%, 7/15/2022	55,000	42,625
Whiting Petroleum Corp.:		
5.75%, 3/15/2021	120,000	118,080
144A, 6.25%, 4/1/2023	270,000	267,975
Williams Partners LP:		
4.0%, 9/15/2025	40,000	37,468
6.125%, 7/15/2022	15,000	15,938
		8,777,334
Financials 2.7%		
AerCap Ireland Capital Ltd., 144A, 3.75%, 5/15/2019	80,000	79,100
Assured Guaranty U.S. Holdings, Inc., 5.0%, 7/1/2024	3,000	2,942
Banco Continental SAECA, 144A, 8.875%, 10/15/2017	200,000	210,400
Banco de Credito del Peru, 144A, 4.25%, 4/1/2023	250,000	249,300
Banco do Brasil SA, 144A, 9.0%, 6/29/2049	450,000	405,990
Barclays Bank PLC, 7.625%, 11/21/2022	250,000	284,700
BBVA Bancomer SA:		
144A, 6.008%, 5/17/2022	500,000	514,250
144A, 6.75%, 9/30/2022	150,000	165,187
CBL & Associates LP, (REIT), 4.6%, 10/15/2024	255,000	251,080
China Overseas Finance Cayman II Ltd., REG S, 5.5%, 11/10/2020	250,000	270,159
CIT Group, Inc.:		
5.0%, 5/15/2017	935,000	964,172
5.25%, 3/15/2018	10,000	10,338
CNO Financial Group, Inc.:		
4.5%, 5/30/2020	20,000	20,300
5.25%, 5/30/2025	40,000	40,648
Corpbanca SA, 144A, 3.875%, 9/22/2019	250,000	253,646
Development Bank of Kazakhstan JSC, Series 3, REG S, 6.5%, 6/3/2020	500,000	520,000
E*TRADE Financial Corp., 4.625%, 9/15/2023	55,000	54,037
Equinix, Inc., (REIT), 5.375%, 4/1/2023	175,000	175,000
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	100,000	94,867
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022	230,000	239,415
HSBC Holdings PLC:		
5.625%, 12/29/2049	255,000	255,319
6.375%, 12/29/2049	30,000	30,075
International Lease Finance Corp.:		
3.875%, 4/15/2018	100,000	100,500
6.25%, 5/15/2019	410,000	443,312
8.75%, 3/15/2017	40,000	43,764
Legg Mason, Inc., 5.625%, 1/15/2044	75,000	80,021
Macquarie Group Ltd., 144A, 6.0%, 1/14/2020	235,000	264,059
Massachusetts Mutual Life Insurance Co., 144A, 4.5%, 4/15/2065	10,000	8,881
MPT Operating Partnership LP, (REIT), 6.375%, 2/15/2022	40,000	42,650
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	135,000	132,557
Navient Corp., 5.5%, 1/25/2023 (b)	125,000	118,750
Omega Healthcare Investors, Inc., (REIT), 4.95%, 4/1/2024	130,000	132,967
Popular, Inc., 7.0%, 7/1/2019	50,000	50,000
		6,508,386
Health Care 2.1%		
AbbVie, Inc., 3.6%, 5/14/2025	35,000	34,594
Actavis Funding SCS, 4.75%, 3/15/2045	2,000	1,904
Alere, Inc., 144A, 6.375%, 7/1/2023	60,000	61,050
Community Health Systems, Inc.:		
5.125%, 8/15/2018	290,000	297,250
6.875%, 2/1/2022 (b)	620,000	654,100
7.125%, 7/15/2020	170,000	180,115
Concordia Healthcare Corp., 144A, 7.0%, 4/15/2023	30,000	30,000
Endo Finance LLC:		
144A, 5.375%, 1/15/2023	80,000	79,000
144A, 6.0%, 2/1/2025	55,000	55,894
Fresenius Medical Care U.S. Finance II, Inc., 144A, 5.625%, 7/31/2019	10,000	10,825
Fresenius Medical Care U.S. Finance, Inc., 144A, 6.5%, 9/15/2018	10,000	11,000
HCA, Inc.:		
6.5%, 2/15/2020	880,000	983,400
7.5%, 2/15/2022	725,000	832,844
Hologic, Inc., 144A, 5.25%, 7/15/2022 (d)	30,000	30,638
IMS Health, Inc., 144A, 6.0%, 11/1/2020	60,000	61,800
Mallinckrodt International Finance SA:		
4.75%, 4/15/2023	110,000	102,644
144A, 4.875%, 4/15/2020	45,000	45,790
Par Pharmaceutical Companies, Inc., 7.375%, 10/15/2020	90,000	96,075
Tenet Healthcare Corp.:		
144A, 3.786%**, 6/15/2020	55,000	55,481
6.25%, 11/1/2018	230,000	249,837
144A, 6.75%, 6/15/2023	115,000	117,300
Valeant Pharmaceuticals International, 144A, 6.375%, 10/15/2020	90,000	94,781
Valeant Pharmaceuticals International, Inc.:		
144A, 5.375%, 3/15/2020	105,000	108,412
144A, 5.875%, 5/15/2023	95,000	97,375
144A, 6.125%, 4/15/2025	285,000	293,194
144A, 7.5%, 7/15/2021	450,000	484,312
		5,069,615
Industrials 2.0%		
ADT Corp.:		
3.5%, 7/15/2022 (b)	50,000	45,250
5.25%, 3/15/2020	130,000	136,175
6.25%, 10/15/2021	45,000	47,250
Aerojet Rocketdyne Holdings, Inc., 7.125%, 3/15/2021	120,000	127,800

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

	Principal Amount ($)(c)	Value ($)
Artesyn Embedded Technologies, Inc., 144A, 9.75%, 10/15/2020	70,000	69,475
Belden, Inc., 144A, 5.5%, 9/1/2022	85,000	84,362
Bombardier, Inc.:		
144A, 5.5%, 9/15/2018	25,000	24,750
144A, 5.75%, 3/15/2022	328,000	291,920
144A, 7.5%, 3/15/2025	30,000	27,225
DigitalGlobe, Inc., 144A, 5.25%, 2/1/2021	35,000	34,256
DP World Ltd., 144A, 6.85%, 7/2/2037	250,000	273,000
Empresas ICA SAB de CV, 144A, 8.875%, 5/29/2024	200,000	149,500
EnerSys, 144A, 5.0%, 4/30/2023	15,000	14,836
FTI Consulting, Inc., 6.0%, 11/15/2022	50,000	52,125
Gates Global LLC, 144A, 6.0%, 7/15/2022	65,000	58,825
Kenan Advantage Group, Inc., 144A, 8.375%, 12/15/2018	100,000	104,125
Masonite International Corp., 144A, 5.625%, 3/15/2023	60,000	60,975
Meritor, Inc., 6.75%, 6/15/2021	55,000	56,238
Mersin Uluslararasi Liman Isletmeciligi AS, 144A, 5.875%, 8/12/2020	500,000	524,710
Navios Maritime Holdings, Inc., 144A, 7.375%, 1/15/2022	450,000	389,812
Noble Group Ltd., 144A, 6.625%, 8/5/2020	250,000	248,625
Nortek, Inc., 8.5%, 4/15/2021	155,000	165,462
Oshkosh Corp., 5.375%, 3/1/2025	10,000	10,000
Ply Gem Industries, Inc., 6.5%, 2/1/2022	60,000	58,050
SBA Communications Corp., 5.625%, 10/1/2019	50,000	52,000
Titan International, Inc., 6.875%, 10/1/2020 (b)	100,000	91,875
TransDigm, Inc.:		
6.0%, 7/15/2022	210,000	207,375
7.5%, 7/15/2021	275,000	295,625
United Rentals North America, Inc.:		
4.625%, 7/15/2023	45,000	44,127
6.125%, 6/15/2023	10,000	10,213
7.375%, 5/15/2020	25,000	26,675
7.625%, 4/15/2022	620,000	671,150
Wise Metals Group LLC, 144A, 8.75%, 12/15/2018	95,000	100,344
XPO Logistics, Inc.:		
144A, 6.5%, 6/15/2022	70,000	68,513
144A, 7.875%, 9/1/2019	95,000	101,517
		4,724,160

Information Technology 0.9%

	Principal Amount ($)(c)	Value ($)
ACI Worldwide, Inc., 144A, 6.375%, 8/15/2020	30,000	31,575
Activision Blizzard, Inc., 144A, 5.625%, 9/15/2021	330,000	345,675
Alliance Data Systems Corp., 144A, 5.25%, 12/1/2017	60,000	61,950
Audatex North America, Inc., 144A, 6.0%, 6/15/2021	15,000	15,413
BMC Software Finance, Inc., 144A, 8.125%, 7/15/2021	30,000	24,300
Cardtronics, Inc., 144A, 5.125%, 8/1/2022	55,000	53,762
CDW LLC, 6.0%, 8/15/2022	130,000	134,225
EarthLink Holdings Corp., 7.375%, 6/1/2020	70,000	72,800
First Data Corp.:		
144A, 6.75%, 11/1/2020 (b)	237,000	250,481
144A, 7.375%, 6/15/2019	276,000	286,902
Infor U.S., Inc., 144A, 6.5%, 5/15/2022	60,000	61,050
Italics Merger Sub, Inc., 144A, 7.125%, 7/15/2023	30,000	29,625
KLA-Tencor Corp., 4.65%, 11/1/2024	150,000	149,918
Micron Technology, Inc., 144A, 5.25%, 8/1/2023	90,000	86,287
NXP BV, 144A, 3.75%, 6/1/2018	90,000	90,675
Open Text Corp., 144A, 5.625%, 1/15/2023	75,000	74,250
Project Homestake Merger Corp., 144A, 8.875%, 3/1/2023	40,000	38,800
Seagate HDD Cayman, 144A, 5.75%, 12/1/2034	220,000	216,617
		2,024,305

Materials 2.1%

	Principal Amount ($)(c)	Value ($)
Anglo American Capital PLC:		
144A, 4.125%, 4/15/2021	200,000	200,092
144A, 4.125%, 9/27/2022 (b)	165,000	160,303
ArcelorMittal, 5.125%, 6/1/2020	20,000	20,275
AVINTIV Specialty Materials, Inc., 7.75%, 2/1/2019	138,000	142,140
Ball Corp., 5.25%, 7/1/2025	70,000	69,213
Berry Plastics Corp., 5.5%, 5/15/2022	320,000	321,200
Cascades, Inc., 144A, 5.5%, 7/15/2022	50,000	48,375
Cemex SAB de CV, 144A, 6.5%, 12/10/2019	200,000	209,940
Chemours Co.:		
144A, 6.625%, 5/15/2023	130,000	125,937
144A, 7.0%, 5/15/2025 (b)	25,000	24,250
Clearwater Paper Corp., 144A, 5.375%, 2/1/2025	70,000	68,600
Evolution Escrow Issuer LLC, 144A, 7.5%, 3/15/2022	70,000	66,325
First Quantum Minerals Ltd.:		
144A, 6.75%, 2/15/2020	61,000	59,018
144A, 7.0%, 2/15/2021	111,000	106,144
Glencore Funding LLC, 144A, 4.125%, 5/30/2023	50,000	48,371
Gold Fields Orogen Holdings BVI Ltd., 144A, 4.875%, 10/7/2020	250,000	228,750
Hexion, Inc.:		
6.625%, 4/15/2020	425,000	389,937
8.875%, 2/1/2018	90,000	81,225
Kaiser Aluminum Corp., 8.25%, 6/1/2020	40,000	43,300
Novelis, Inc., 8.75%, 12/15/2020	955,000	1,009,912
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021	70,000	71,225
Platform Specialty Products Corp., 144A, 6.5%, 2/1/2022	80,000	82,600
Reynolds Group Issuer, Inc., 5.75%, 10/15/2020	1,145,000	1,173,625
Tronox Finance LLC, 6.375%, 8/15/2020	55,000	51,013
WR Grace & Co-Conn:		
144A, 5.125%, 10/1/2021	40,000	40,300
144A, 5.625%, 10/1/2024	20,000	20,250

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

		Principal Amount ($)(c)	Value ($)
Yamana Gold, Inc., 4.95%, 7/15/2024		250,000	240,808
			5,103,128
Telecommunication Services 4.2%			
America Movil SAB de CV, 7.125%, 12/9/2024	MXN	2,000,000	123,404
AT&T, Inc.:			
2.45%, 6/30/2020		40,000	39,211
3.4%, 5/15/2025		70,000	66,760
Bharti Airtel International Netherlands BV, 144A, 5.35%, 5/20/2024		1,000,000	1,058,880
CenturyLink, Inc., Series V, 5.625%, 4/1/2020		25,000	25,031
CommScope, Inc., 144A, 4.375%, 6/15/2020		35,000	35,350
CyrusOne LP:			
144A, 6.375%, 11/15/2022 (d)		65,000	67,275
6.375%, 11/15/2022		25,000	25,875
Digicel Group Ltd.:			
144A, 7.125%, 4/1/2022		250,000	237,425
144A, 8.25%, 9/30/2020		400,000	401,000
Frontier Communications Corp.:			
6.25%, 9/15/2021		60,000	54,600
6.875%, 1/15/2025		240,000	200,700
7.125%, 1/15/2023		390,000	346,125
8.5%, 4/15/2020		290,000	303,195
Hughes Satellite Systems Corp.:			
6.5%, 6/15/2019		54,000	58,590
7.625%, 6/15/2021		190,000	209,038
Intelsat Jackson Holdings SA:			
5.5%, 8/1/2023		265,000	234,657
7.25%, 10/15/2020		540,000	533,925
7.5%, 4/1/2021		340,000	336,175
Level 3 Financing, Inc.:			
5.375%, 8/15/2022		265,000	267,650
144A, 5.375%, 5/1/2025 (b)		55,000	53,006
6.125%, 1/15/2021		100,000	104,870
7.0%, 6/1/2020		185,000	196,331
8.625%, 7/15/2020		450,000	480,915
Millicom International Cellular SA, 144A, 6.0%, 3/15/2025		200,000	193,000
MTN Mauritius Investments Ltd., 144A, 4.755%, 11/11/2024		500,000	496,250
Plantronics, Inc., 144A, 5.5%, 5/31/2023		30,000	30,375
Sprint Communications, Inc.:			
6.0%, 11/15/2022 (b)		85,000	77,669
144A, 7.0%, 3/1/2020 (b)		85,000	92,455
144A, 9.0%, 11/15/2018		420,000	474,289
Sprint Corp., 7.125%, 6/15/2024		285,000	264,366
T-Mobile U.S.A., Inc.:			
6.375%, 3/1/2025		215,000	219,838
6.625%, 11/15/2020		655,000	681,200
UPCB Finance IV Ltd., 144A, 5.375%, 1/15/2025		285,000	272,032
UPCB Finance V Ltd., 144A, 7.25%, 11/15/2021		252,000	272,160
Wind Acquisition Finance SA, 144A, 6.5%, 4/30/2020		50,000	52,250
Windstream Services LLC:			
6.375%, 8/1/2023		60,000	48,825
7.75%, 10/15/2020 (b)		1,075,000	1,052,156
7.75%, 10/1/2021		185,000	169,275
7.875%, 11/1/2017		130,000	138,125

	Principal Amount ($)(c)	Value ($)
Zayo Group LLC:		
144A, 6.0%, 4/1/2023 (b)	80,000	79,016
144A, 6.375%, 5/15/2025	70,000	67,900
		10,141,169
Utilities 0.6%		
AES Corp., 8.0%, 6/1/2020	30,000	34,650
Calpine Corp.:		
5.375%, 1/15/2023	85,000	83,512
5.75%, 1/15/2025	85,000	82,663
Dynegy, Inc.:		
144A, 7.375%, 11/1/2022	70,000	73,325
144A, 7.625%, 11/1/2024	135,000	142,762
Hrvatska Elektroprivreda, 144A, 6.0%, 11/9/2017	250,000	260,937
Lamar Funding Ltd., 144A, 3.958%, 5/7/2025	250,000	243,125
NGL Energy Partners LP, 5.125%, 7/15/2019	65,000	64,838
NRG Energy, Inc., 6.25%, 5/1/2024	360,000	357,300
Talen Energy Supply LLC, 144A, 5.125%, 7/15/2019	70,000	68,600
		1,411,712
Total Corporate Bonds (Cost $54,902,313)		**53,429,418**

Asset-Backed 0.5%

Miscellaneous

	Principal Amount ($)(c)	Value ($)
ARES CLO Ltd., "D", Series 2012-3A, 144A, 4.907%**, 1/17/2024	250,000	250,029
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	386,272	380,608
PennyMac LLC, "A1", Series 2015-NPL1, 144A, 4.0%, 3/25/2055	565,215	564,695
Total Asset-Backed (Cost $1,191,410)		**1,195,332**

Mortgage-Backed Securities Pass-Throughs 5.3%

	Principal Amount ($)(c)	Value ($)
Federal Home Loan Mortgage Corp.:		
3.5%, 12/1/2042 (d)	5,000,000	5,142,187
6.0%, 3/1/2038	7,204	8,191
Federal National Mortgage Association:		
4.0%, 4/1/2042 (d)	2,200,000	2,330,625
4.5%, 9/1/2035	20,389	22,207
6.0%, 1/1/2024	24,561	27,879
6.5%, with various maturities from 5/1/2017 until 1/1/2038	4,314	4,546
Government National Mortgage Association 3.5%, 5/1/2043 (d)	5,000,000	5,189,453
Total Mortgage-Backed Securities Pass-Throughs (Cost $12,782,775)		**12,725,088**

Commercial Mortgage-Backed Securities 0.4%

	Principal Amount ($)(c)	Value ($)
Del Coronado Trust, "M", Series 2013-HDMZ, 144A, 5.186%**, 3/15/2018	120,000	120,036
FHLMC Multifamily Structured Pass-Through Certificates, "X1", Series K043, 0.678%**, 12/25/2024	4,996,682	217,616

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

		Principal Amount ($)(c)	Value ($)
JPMBB Commercial Mortgage Securities Trust, "A3", Series 2014-C19, 3.669%, 4/15/2047		125,000	130,650
JPMorgan Chase Commercial Mortgage Securities Corp., "A4", Series 2007-C1, 5.716%, 2/15/2051		222,767	237,699
LB-UBS Commercial Mortgage Trust, "A4", Series 2007-C6, 5.858%, 7/15/2040		238,274	250,967
Total Commercial Mortgage-Backed Securities (Cost $966,303)			**956,968**

Collateralized Mortgage Obligations 1.7%

		Principal Amount ($)(c)	Value ($)
Federal Home Loan Mortgage Corp.:			
"HI", Series 3979, Interest Only, 3.0%, 12/15/2026		523,474	52,575
"IK", Series 4048, Interest Only, 3.0%, 5/15/2027		629,373	74,613
"ZG", Series 4213, 3.5%, 6/15/2043		56,707	55,021
"LI", Series 3720, Interest Only, 4.5%, 9/15/2025		1,017,364	145,517
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038		546,373	64,604
"SP", Series 4047, Interest Only, 6.465%***, 12/15/2037		566,608	92,702
"H", Series 2278, 6.5%, 1/15/2031		136	151
Federal National Mortgage Association:			
"WO", Series 2013-27, Principal Only, Zero Coupon, 12/25/2042		220,000	117,920
"4", Series 406, Interest Only, 4.0%, 9/25/2040		179,886	37,057
"KZ", Series 2010-134, 4.5%, 12/25/2040		437,503	472,161
"I", Series 2003-84, Interest Only, 6.0%, 9/25/2033		187,963	45,107
"PI", Series 2006-20, Interest Only, 6.493%***, 11/25/2030		345,266	55,865
Freddie Mac Structured Agency Credit Risk Debt Notes, "M3", Series 2014-DN4, 4.735%**, 10/25/2024		240,000	243,026
Government National Mortgage Association:			
"QI", Series 2011-112, Interest Only, 4.0%, 5/16/2026		534,251	55,247
"GC", Series 2010-101, 4.0%, 8/20/2040		500,000	525,502
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044		592,269	104,753
"NI", Series 2011-80, Interest Only, 4.5%, 5/16/2038		663,491	37,988
"BI", Series 2010-30, Interest Only, 4.5%, 7/20/2039		96,953	14,478
"ND", Series 2010-130, 4.5%, 8/16/2039		600,000	658,169
"PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039		144,341	28,922
"IP", Series 2014-11, Interest Only, 4.5%, 1/20/2043		413,059	70,293
"PZ", Series 2010-106, 4.75%, 8/20/2040		444,935	493,703
"IQ", Series 2011-18, Interest Only, 5.5%, 1/16/2039		221,285	27,148
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039		418,011	82,606
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039		425,155	88,365
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039		314,330	64,107
"AI", Series 2007-38, Interest Only, 6.275%***, 6/16/2037		73,133	12,901
Residential Funding Mortgage Securities I, Inc., "M1", Series 2003-S17, 5.5%, 9/25/2033		344,442	244,061
Total Collateralized Mortgage Obligations (Cost $3,586,168)			**3,964,562**

Government & Agency Obligations 9.0%

Other Government Related (e) 0.1%

		Principal Amount ($)(c)	Value ($)
Perusahaan Penerbit SBSN, 144A, 4.325%, 5/28/2025		200,000	**194,760**

Sovereign Bonds 3.7%

		Principal Amount ($)(c)	Value ($)
Dominican Republic, 144A, 5.5%, 1/27/2025		100,000	100,250
Hashemite Kingdom of Jordan Government AID Bond, 3.0%, 6/30/2025		1,200,000	1,203,000
Indonesia Treasury Bond, Series FR56, 8.375%, 9/15/2026	IDR	1,340,000,000	100,562
Kingdom of Spain-Inflation Linked Bond, REG S, 144A, 1.0%, 11/30/2030	EUR	1,153,761	1,193,401
Portugal Obrigacoes do Tesouro OT, REG S, 144A, 4.1%, 2/15/2045	EUR	1,400,000	1,618,351
Republic of El Salvador:			
144A, 6.375%, 1/18/2027		100,000	96,750
144A, 7.65%, 6/15/2035		100,000	100,500
Republic of Hungary, Series 19/A, 6.5%, 6/24/2019	HUF	16,900,000	68,367
Republic of Ireland, REG S, 2.0%, 2/18/2045	EUR	600,000	584,274
Republic of New Zealand, Series 0427, REG S, 4.5%, 4/15/2027	NZD	2,300,000	1,686,811
Republic of Poland, Series 0725, 3.25%, 7/25/2025	PLN	720,000	190,987
Republic of Singapore, 2.75%, 4/1/2042	SGD	600,000	420,760
Republic of Slovenia, 144A, 5.5%, 10/26/2022		200,000	221,790
Republic of South Africa:			
Series R204, 8.0%, 12/21/2018	ZAR	2,200,000	183,391
Series R186, 10.5%, 12/21/2026	ZAR	2,700,000	258,326
Republic of Sri Lanka, 144A, 5.125%, 4/11/2019		200,000	199,000
Republic of Turkey, 8.5%, 7/10/2019	TRY	500,000	181,337
Republic of Uruguay, 5.1%, 6/18/2050		40,000	38,100
United Mexican States, 4.6%, 1/23/2046		500,000	462,500
			8,908,457

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

	Principal Amount ($)(c)	Value ($)
U.S. Government Sponsored Agency 0.4%		
Federal National Mortgage Association, 3.0%, 11/15/2027	1,000,000	**973,309**
U.S. Treasury Obligations 4.8%		
U.S. Treasury Bills:		
0.06%****, 8/13/2015 (f)	1,327,000	1,327,000
0.07%****, 12/3/2015 (f)	604,000	603,889
U.S. Treasury Bonds:		
2.5%, 2/15/2045	25,000	22,002
3.125%, 8/15/2044	142,000	142,233
3.625%, 2/15/2044	176,000	193,504
5.375%, 2/15/2031	1,071,000	1,439,742
U.S. Treasury Notes:		
1.0%, 8/31/2016 (g) (h)	5,349,000	5,387,449
1.0%, 9/30/2016	1,200,000	1,209,094
1.25%, 1/31/2020	180,000	177,581
2.125%, 5/15/2025	10,000	9,819
2.25%, 11/15/2024	770,000	765,308
2.5%, 5/15/2024	170,000	172,908
		11,450,529
Total Government & Agency Obligations (Cost $22,212,110)		**21,527,055**

Municipal Bonds and Notes 2.3%

	Principal Amount ($)(c)	Value ($)
Arizona, State Transportation Board, Highway Revenue, 5.0%, 7/1/2033	1,000,000	1,149,960
Atlanta, GA, Water & Wastewater Revenue, 5.0%, 11/1/2034	1,000,000	1,134,560
California, State General Obligation:		
5.0%, 3/1/2033	285,000	327,106
5.0%, 3/1/2032	715,000	823,208
Honolulu City & County, HI, General Obligation, Series A, 5.0%, 10/1/2035	365,000	420,644
Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018	231,439	238,664
New York City, NY, Transitional Finance Authority Revenue, Future Tax Secured, Series A-1, 5.0%, 8/1/2032	500,000	570,675
New York, NY, General Obligation, Series C, 5.0%, 8/1/2033	290,000	330,737
Ventura County, CA, Community College District, 5.0%, 8/1/2030	330,000	388,323
Total Municipal Bonds and Notes (Cost $5,446,873)		**5,383,877**

Convertible Bond 0.2%

Materials

	Principal Amount ($)(c)	Value ($)
GEO Specialty Chemicals, Inc., 144A, 7.5%, 10/30/2018 (Cost $205,860)	209,283	**382,465**

Preferred Security 0.0%

Materials

	Principal Amount ($)(c)	Value ($)
Hercules, Inc., 6.5%, 6/30/2029 (Cost $20,821)	40,000	**36,400**

	Shares	Value ($)
Mutual Fund 4.7%		
Deutsche Floating Rate Fund "Institutional" (i) (Cost $11,234,874)	1,237,106	**11,307,152**
Securities Lending Collateral 3.3%		
Daily Assets Fund Institutional, 0.16% (i) (j) (Cost $7,991,825)	7,991,825	**7,991,825**
Cash Equivalents 2.5%		
Central Cash Management Fund, 0.09% (i) (Cost $5,923,511)	5,923,511	**5,923,511**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $245,669,184)†	108.2	**258,214,608**
Other Assets and Liabilities, Net	(8.2)	**(19,578,903)**
Net Assets	100.0	**238,635,705**

The following table represents bonds that are in default:

Security	Coupon	Maturity Date	Principal Amount		Cost ($)	Value ($)
Afren PLC*	10.25%	4/8/2019	USD	340,000	370,821	149,600

* 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, 2015.

*** These securities are shown at their current rate as of June 30, 2015.

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

† The cost for federal income tax purposes was $246,123,749. At June 30, 2015, net unrealized appreciation for all securities based on tax cost was $12,090,859. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $20,315,859 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $8,225,000.

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

(a) 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	940	.00

(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, 2015 amounted to $7,511,730, which is 3.1% of net assets.

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

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

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

(f) At June 30, 2015, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(g) At June 30, 2015, this security has been pledged, in whole or in part, as collateral for open over-the-counter derivatives.

(h) At June 30, 2015, this security has been pledged, in whole or in part, to cover initial margin requirements for open 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

RSP: Risparmio (Convertible Savings Shares)

SBSN: Surat Berharga Syariah Negara

SDR: Swedish Depositary Receipt

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, 2015, open futures contracts purchased were as follows:

Futures	**Currency**	**Expiration Date**	**Contracts**	**Notional Value ($)**	**Unrealized Appreciation/ (Depreciation) ($)**
10 Year Australian Bond	AUD	9/15/2015	26	2,512,783	12,695
Euro-BUXL 30 Year German Government Bond	EUR	9/8/2015	12	1,988,535	(22,852)
Total net unrealized depreciation					**(10,157)**

At June 30, 2015, open futures contracts sold were as follows:

Futures	**Currency**	**Expiration Date**	**Contracts**	**Notional Value ($)**	**Unrealized Appreciation/ (Depreciation) ($)**
10 Year Canadian Government Bond	CAD	9/21/2015	22	2,465,973	(24,584)
10 Year U.S. Treasury Note	USD	9/21/2015	148	18,673,438	151,971
Euro-Bund Federal Republic of Germany	EUR	9/8/2015	15	2,541,857	(30,123)
Ultra Long U.S. Treasury Bond	USD	9/21/2015	55	8,473,438	227,597
Total net unrealized appreciation					**324,861**

At June 30, 2015, 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 — 3-Month LIBOR	5/9/2016 5/11/2026	2,100,000[1]	5/5/2016	23,573	(1,396)
Receive Fixed — 5.132% – Pay Floating — 3-Month LIBOR	3/17/2016 3/17/2026	2,100,000[1]	3/15/2016	15,172	(90)
Receive Fixed — 5.132% – Pay Floating — 3-Month LIBOR	3/17/2016 3/17/2026	2,100,000[2]	3/15/2016	24,780	(90)
Total Call Options				**63,525**	**(1,576)**
Put Options					
Pay Fixed — 1.132% – Receive Floating — 3-Month LIBOR	3/17/2016 3/17/2026	2,100,000[1]	3/15/2016	15,173	(1,078)
Pay Fixed — 1.132% – Receive Floating — 3-Month LIBOR	3/17/2016 3/17/2026	2,100,000[2]	3/15/2016	5,355	(1,078)
Pay Fixed — 2.48% – Receive Floating — 3-Month LIBOR	5/9/2016 5/11/2026	2,100,000[1]	5/5/2016	23,572	(40,585)
Pay Fixed — 2.615% – Receive Floating — 3-Month LIBOR	12/4/2015 12/4/2045	4,900,000[3]	12/2/2015	106,330	(87,984)
Pay Fixed — 2.64% – Receive Floating — 3-Month LIBOR	8/10/2015 8/10/2045	1,900,000[1]	8/6/2015	17,765	(10,164)
Pay Fixed — 2.675% – Receive Floating — 3-Month LIBOR	11/12/2015 11/12/2045	4,900,000[3]	11/9/2015	98,245	(99,258)
Pay Fixed — 2.88% – Receive Floating — LIBOR	9/30/2015 9/30/2045	4,900,000[4]	9/28/2015	102,524	(143,286)
Total Put Options				**368,964**	**(383,433)**
Total				**432,489**	**(385,009)**

(k) Unrealized appreciation on written options on interest rate swap contracts at June 30, 2015 was $47,480.

At June 30, 2015, 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 ($)	Unrealized Appreciation ($)
4/15/2015 6/20/2020	70,000[5]	5.0%	CCO Holdings LLC, 7.25%, 10/30/2017, BB–	6,861	6,691	170
12/22/2014 3/20/2020	135,000[6]	5.0%	General Motors Corp., 6.25%, 10/2/2043, BBB–	22,511	20,287	2,224
Total unrealized appreciation						**2,394**

(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, 2015, 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) ($)
9/16/2015 9/16/2045	1,900,000	Floating — 3-Month LIBOR	Fixed — 3.0%	19,401	(17,549)
9/16/2015 9/16/2045	1,900,000	Fixed — 3.0%	Floating — 3-Month LIBOR	(19,401)	26,268
9/16/2015 9/16/2020	8,037,000	Fixed — 2.25%	Floating — 3-Month LIBOR	(143,871)	(2,581)
12/16/2015 9/16/2020	17,900,000	Floating — 3-Month LIBOR	Fixed — 2.214%	207,030	215,734
12/16/2015 9/18/2017	700,000	Fixed — 1.557%	Floating — 3-Month LIBOR	(5,022)	(5,722)
2/3/2015 2/3/2045	1,900,000	Fixed — 3.035%	Floating — 3-Month LIBOR	(67,399)	(44,249)

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

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
1/28/2015 1/28/2045	2,100,000	Fixed — 3.088%	Floating — 3-Month LIBOR	(98,824)	(77,640)
12/16/2015 9/18/2045	4,300,000	Fixed — 2.998%	Floating — 3-Month LIBOR	(13,966)	121,970
12/16/2015 9/17/2035	400,000	Fixed — 2.938%	Floating — 3-Month LIBOR	(1,754)	6,433
12/16/2015 9/16/2025	800,000	Fixed — 2.64%	Floating — 3-Month LIBOR	(4,742)	(234)
Total net unrealized appreciation					**222,430**

Counterparties:

1 Nomura International PLC

2 BNP Paribas

3 Citigroup, Inc.

4 Morgan Stanley

5 Barclays Bank PLC

6 Credit Suisse

LIBOR: London Interbank Offered Rate; 3-Month LIBOR rate at June 30, 2015 is 0.28%.

As of June 30, 2015, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
KRW	1,169,662,000	JPY	130,000,000	7/9/2015	13,874	Nomura International PLC
KRW	1,169,675,000	JPY	130,000,000	7/9/2015	13,863	Australia & New Zealand Banking Group Ltd.
AUD	994,150	GBP	500,000	7/9/2015	18,857	Morgan Stanley
AUD	994,130	GBP	500,000	7/9/2015	18,872	Commonwealth Bank of Australia
USD	2,550,268	JPY	320,000,000	7/9/2015	64,640	Barclays Bank PLC
SEK	8,749,491	EUR	950,000	7/9/2015	3,634	Societe Generale
SEK	8,747,771	EUR	950,000	7/9/2015	3,842	Morgan Stanley
SEK	8,359,200	NOK	8,000,000	7/9/2015	11,699	Crédit Agricole CIB
SEK	8,385,752	NOK	8,000,000	7/9/2015	8,495	Morgan Stanley
JPY	130,000,000	KRW	1,187,160,000	7/9/2015	1,810	Nomura International PLC
JPY	130,000,000	KRW	1,187,095,000	7/9/2015	1,752	Australia & New Zealand Banking Group Ltd.
EUR	1,400,000	USD	1,581,878	7/9/2015	20,935	BNP Paribas
NZD	1,100,000	USD	769,890	7/9/2015	24,937	Macquarie Bank Ltd.
NZD	500,000	USD	346,958	7/9/2015	8,342	National Australia Bank Ltd.
EUR	4,800,000	USD	5,370,235	7/13/2015	18,161	UBS AG
EUR	2,400,000	USD	2,678,299	7/13/2015	2,262	Barclays Bank PLC
USD	5,204,702	EUR	4,800,000	7/13/2015	147,372	Bank of America
USD	2,781,766	EUR	2,581,400	7/13/2015	96,535	Societe Generale
EUR	1,677,000	USD	1,878,502	7/13/2015	8,621	Societe Generale
EUR	302,000	USD	337,191	7/13/2015	457	UBS AG
SGD	1,177,000	USD	878,931	7/13/2015	5,184	Societe Generale
SEK	10,210,000	USD	1,235,505	7/13/2015	3,625	Societe Generale
USD	2,610,834	SEK	22,077,800	7/13/2015	52,946	Societe Generale
USD	695,293	EUR	625,000	7/13/2015	1,592	UBS AG
NZD	2,491,000	USD	1,752,970	7/13/2015	66,581	Societe Generale
PLN	820,000	USD	219,006	8/10/2015	1,145	Citigroup, Inc.
USD	1,204,168	ZAR	14,800,000	8/14/2015	3,336	BNP Paribas
MXN	8,300,000	USD	536,585	8/14/2015	10,114	BNP Paribas
MXN	2,066,000	USD	132,335	8/14/2015	1,288	JPMorgan Chase Securities, Inc.
COP	1,957,500,000	USD	767,207	8/18/2015	19,589	BNP Paribas
Total unrealized appreciation					**654,360**	

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

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
CAD	1,300,000	USD	1,039,850	7/9/2015	(882)	Morgan Stanley
CAD	1,300,000	USD	1,040,000	7/9/2015	(733)	Macquarie Bank Ltd.
GBP	1,000,000	USD	1,561,270	7/9/2015	(9,900)	Morgan Stanley
JPY	320,000,000	USD	2,605,359	7/9/2015	(9,549)	Nomura International PLC
USD	622,102	CAD	755,549	7/13/2015	(17,268)	Societe Generale
NOK	11,904,000	USD	1,469,117	7/13/2015	(48,785)	BNP Paribas
SGD	825,000	USD	607,214	7/13/2015	(5,225)	UBS AG
EUR	2,400,000	USD	2,577,566	7/13/2015	(98,471)	Citigroup, Inc.
EUR	4,942,400	USD	5,308,068	7/13/2015	(202,784)	Citigroup, Inc.
CAD	755,549	USD	600,610	7/13/2015	(4,224)	Citigroup, Inc.
SEK	22,115,000	USD	2,536,015	7/13/2015	(132,254)	Barclays Bank PLC
EUR	2,400,000	USD	2,577,034	7/13/2015	(99,004)	Bank of America
USD	1,572,969	NOK	11,904,000	7/13/2015	(55,068)	Barclays Bank PLC
USD	674,019	EUR	604,000	7/13/2015	(549)	Citigroup, Inc.
USD	2,737,898	EUR	2,400,000	7/13/2015	(61,861)	Societe Generale
USD	1,259,819	SEK	10,247,200	7/13/2015	(23,450)	Barclays Bank PLC
USD	2,682,439	EUR	2,400,000	7/13/2015	(6,402)	UBS AG
USD	420,202	SGD	566,000	7/13/2015	(32)	Barclays Bank PLC
TRY	510,000	USD	183,484	7/20/2015	(5,765)	BNP Paribas
ZAR	18,020,000	USD	1,429,682	8/14/2015	(40,536)	BNP Paribas
USD	400,814	TRY	1,087,500	8/14/2015	(124)	Nomura International PLC
USD	530,512	MXN	8,300,000	8/14/2015	(4,041)	BNP Paribas
TRY	1,087,500	USD	387,024	8/14/2015	(13,665)	Nomura International PLC
ILS	1,950,000	USD	508,886	8/14/2015	(7,882)	Nomura International PLC
Total unrealized depreciation					**(848,454)**	

Currency Abbreviations

AUD	Australian Dollar	HUF	Hungarian Forint	MXN	Mexican Peso	SGD	Singapore Dollar
CAD	Canadian Dollar	IDR	Indonesian Rupiah	NOK	Norwegian Krone	TRY	Turkish Lira
COP	Colombian Peso	ILS	Israeli Shekel	NZD	New Zealand Dollar	USD	United States Dollar
EUR	Euro	JPY	Japanese Yen	PLN	Polish Zloty	ZAR	South African Rand
GBP	British Pound	KRW	South Korean Won	SEK	Swedish Krona		

For information on the Fund's policy and additional disclosures regarding futures contracts, credit default swaps, 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, 2015 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 (n)				
Consumer Discretionary	$ 9,017,189	$ 5,458,115	$ 940	$ 14,476,244
Consumer Staples	7,557,706	3,161,959	—	10,719,665
Energy	4,617,282	3,087,519	—	7,704,801
Financials	18,013,925	16,704,175	—	34,718,100
Health Care	10,574,251	2,314,022	0	12,888,273
Industrials	5,874,394	6,692,686	—	12,567,080
Information Technology	13,834,847	2,001,886	—	15,836,733
Materials	2,565,987	3,034,515	13,558	5,614,060
Telecommunication Services	2,503,025	5,410,189	—	7,913,214
Utilities	6,621,827	2,873,107	—	9,494,934
Preferred Stocks	—	1,445,814	—	1,445,814
Rights (n)	—	3,059	7,977	11,036
Warrants	—	—	1,001	1,001
Fixed Income Investments (n)				
Corporate Bonds	—	53,429,418	—	53,429,418
Asset-Backed	—	1,195,332	—	1,195,332
Mortgage-Backed Securities Pass-Throughs	—	12,725,088	—	12,725,088
Commercial Mortgage-Backed Securities	—	956,968	—	956,968
Collateralized Mortgage Obligations	—	3,964,562	—	3,964,562
Government & Agency Obligations	—	21,527,055	—	21,527,055
Municipal Bonds and Notes	—	5,383,877	—	5,383,877
Convertible Bond	—	—	382,465	382,465
Preferred Security	—	36,400	—	36,400
Mutual Fund	11,307,152	—	—	11,307,152
Short-Term Investments (n)	13,915,336	—	—	13,915,336
Derivatives (o)				
Futures Contracts	392,263	—	—	392,263
Credit Default Swap Contracts	—	2,394	—	2,394
Interest Rate Swap Contracts	—	370,405	—	370,405
Forward Foreign Currency Exchange Contracts	—	654,360	—	654,360
Total	**$106,795,184**	**$152,432,905**	**$ 405,941**	**$259,634,030**

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives (o)				
Futures Contracts	$ (77,559)	$ —	$ —	$ (77,559)
Written Options	—	(385,009)	—	(385,009)
Interest Rate Swap Contracts	—	(147,975)	—	(147,975)
Forward Foreign Currency Exchange Contracts	—	(848,454)	—	(848,454)
Total	**$ (77,559)**	**$ (1,381,438)**	**$ —**	**$ (1,458,997)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2015.

(n) See Investment Portfolio for additional detailed categorizations.

(o) Derivatives include unrealized appreciation (depreciation) on open 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, 2015 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $220,518,974) — including $7,511,730 of securities loaned	$	232,992,120
Investment in Daily Assets Fund Institutional (cost $7,991,825)*		7,991,825
Investments in affiliated Underlying Funds (cost $17,158,385)		17,230,663
Total investments in securities, at value (cost $245,669,184)		258,214,608
Cash		111,237
Foreign currency, at value (cost $534,510)		536,170
Receivable for investments sold		664,645
Receivable for investments sold — when-issued/delayed delivery security		2,273,827
Receivable for Fund shares sold		7,285
Dividends receivable		223,651
Interest receivable		1,152,581
Receivable for variation margin on centrally cleared swaps		30,477
Unrealized appreciation on bilateral swap contracts		2,394
Unrealized appreciation on forward foreign currency exchange contracts		654,360
Upfront payments paid on bilateral swap contracts		26,978
Foreign taxes recoverable		63,764
Other assets		2,344
Total assets		263,964,321
Liabilities		
Payable upon return of securities loaned		7,991,825
Payable for investments purchased		537,189
Payable for investments purchased — when-issued/delayed delivery securities		15,146,091
Payable for Fund shares redeemed		167,856
Payable for variation margin on futures contracts		3,341
Options written, at value (premium received $432,489)		385,009
Unrealized depreciation on forward foreign currency exchange contracts		848,454
Accrued management fee		68,230
Accrued Trustees' fees		3,889
Other accrued expenses and payables		176,732
Total liabilities		25,328,616
Net assets, at value	**$**	**238,635,705**
Net Assets Consist of		
Undistributed net investment income		3,697,961
Net unrealized appreciation (depreciation) on:		
Investments		12,545,424
Swap contracts		224,824
Futures		314,704
Foreign currency		(197,683)
Written options		47,480
Accumulated net realized gain (loss)		(464,415)
Paid-in capital		222,467,410
Net assets, at value	**$**	**238,635,705**
Class A		
Net Asset Value, offering and redemption price per share ($238,635,705 ÷ 9,996,405 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**23.87**

* 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, 2015 (Unaudited)

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $134,832)	$ 2,124,801
Interest (net of foreign taxes withheld of $615)	2,160,359
Income distributions from affiliated Underlying Funds	239,075
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	40,386
Total income	4,564,621
Expenses:	
Management fee	448,747
Administration fee	121,283
Services to shareholders	756
Custodian fee	42,573
Professional fees	48,026
Reports to shareholders	33,785
Trustees' fees and expenses	6,505
Other	39,453
Total expenses before expense reductions	741,128
Expense reductions	(31,838)
Total expenses after expense reductions	709,290
Net investment income	**3,855,331**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	(333,140)
Swap contracts	(260,407)
Futures	(539,975)
Written options	40,280
Foreign currency	1,007,429
	(85,813)
Change in net unrealized appreciation (depreciation) on:	
Investments	1,379,855
Swap contracts	233,231
Futures	360,623
Written options	835,806
Foreign currency	(220,905)
	2,588,610
Net gain (loss)	**2,502,797**
Net increase (decrease) in net assets resulting from operations	**$ 6,358,128**

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, 2015 (Unaudited)	Year Ended December 31, 2014
Operations:		
Net investment income	$ 3,855,331	$ 7,379,735
Net realized gain (loss)	(85,813)	7,258,440
Change in net unrealized appreciation (depreciation)	2,588,610	(4,653,232)
Net increase (decrease) in net assets resulting from operations	6,358,128	9,984,943
Distributions to shareholders from:		
Net investment income: Class A	(7,355,308)	(8,047,271)
Net realized gains: Class A	(6,214,133)	(26,528,998)
Total distributions	(13,569,441)	(34,576,269)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,112,973	5,731,970
Shares issued to shareholders in reinvestment of distributions	13,569,441	34,576,269
Payments for shares redeemed	(18,005,625)	(37,629,458)
Net increase (decrease) in net assets from Class A share transactions	(1,323,211)	2,678,781
Increase (decrease) in net assets	(8,534,524)	(21,912,545)
Net assets at beginning of period	247,170,229	269,082,774
Net assets at end of period (including undistributed net investment income of $3,697,961 and $7,197,938, respectively)	**$ 238,635,705**	**$ 247,170,229**

Other Information		
Class A		
Shares outstanding at beginning of period	10,040,081	9,857,478
Shares sold	127,024	223,936
Shares issued to shareholders in reinvestment of distributions	562,580	1,433,510
Shares redeemed	(733,280)	(1,474,843)
Net increase (decrease) in Class A shares	(43,676)	182,603
Shares outstanding at end of period	9,996,405	10,040,081

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

Financial Highlights

Class A	Six Months Ended 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$24.62**	**$27.30**	**$23.90**	**$21.49**	**$22.13**	**$20.52**
Income (loss) from investment operations:						
Net investment income[a]	.39	.72	.78	.57	.46	.39
Net realized and unrealized gain (loss)	.26	.25	3.14	2.20	(.75)	1.88
Total from investment operations	.65	.97	3.92	2.77	(.29)	2.27
Less distributions from:						
Net investment income	(.76)	(.85)	(.52)	(.36)	(.35)	(.66)
Net realized gains	(.64)	(2.80)	—	—	—	—
Total distributions	(1.40)	(3.65)	(.52)	(.36)	(.35)	(.66)
Net asset value, end of period	**$23.87**	**$24.62**	**$27.30**	**$23.90**	**$21.49**	**$22.13**
Total Return (%)	2.60[b]**	3.83	16.63	12.98	(1.42)	11.22
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	239	247	269	260	264	308
Ratio of expenses before expense reductions (%)	.61*	.62	.60	.59	.58	.65
Ratio of expenses after expense reductions (%)	.58*	.62	.60	.59	.58	.65
Ratio of net investment income (loss) (%)	3.18*	2.83	3.07	2.48	2.09	1.89
Portfolio turnover rate (%)	40**	88	182	188	109	203

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 Income Builder VIP (the "Fund") is a diversified series of Deutsche 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.

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, 2015, 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, 2014 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, 2015, 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, 2015 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2015, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $26,200,000 to $39,937,000.

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, 2015, 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, 2015 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2015, the investment in credit default swap contracts sold had a total notional value of generally indicative of a range from $0 to $205,000.

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, 2015, 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, 2015 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2015, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $4,501,000 to $13,797,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $21,219,000 to $52,895,000.

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, 2015, 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, 2015, the investment in written option contracts had a total value generally indicative of a range from approximately $385,000 to $1,758,000.

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, 2015, 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, 2015 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2015, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $20,741,000 to $46,081,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $17,111,000 to $35,894,000. The investment in forward currency contracts long vs. other foreign currencies sold had a total contract value generally indicative of a range from approximately $9,923,000 to $21,540,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2015 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)	$ —	$ 370,405	$ 392,263	$ 762,668
Credit Contracts (b)	—	2,394	—	2,394
Foreign Exchange Contracts (c)	654,360	—	—	654,360
	$ 654,360	**$ 372,799**	**$ 392,263**	**$ 1,419,422**

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 bilateral swap contracts

(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)	$ (385,009)	$ —	$ (147,975)	$ (77,559)	$ (610,543)
Foreign Exchange Contracts (c)	—	(848,454)	—	—	(848,454)
	$ (385,009)	**$ (848,454)**	**$ (147,975)**	**$ (77,559)**	**$ (1,458,997)**

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, 2015 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)	$ 40,280	$ —	$ (260,407)	$ (539,975)	$ (760,102)
Foreign Exchange Contracts (b)	—	1,006,667	—	—	1,006,667
	$ 40,280	**$ 1,006,667**	**$ (260,407)**	**$ (539,975)**	**$ 246,565**

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)	$ 835,806	$ —	$ 230,837	$ 360,623	$ 1,427,266
Credit Contracts (a)	—	—	2,394	—	2,394
Foreign Exchange Contracts (b)	—	(230,019)	—	—	(230,019)
	$ 835,806	**$ (230,019)**	**$ 233,231**	**$ 360,623**	**$ 1,199,641**

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, 2015, 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 counterparty, 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 (a)**	**Net Amount of Derivative Assets**
Australia & New Zealand Banking Group Ltd	$ 15,615	$ —	$ —	$ —	$ 15,615
Bank of America	147,372	(99,004)	—	—	48,368
Barclays Bank PLC	67,072	(67,072)	—	—	—
BNP Paribas	53,974	(53,974)	—	—	—
Crédit Agricole CIB	11,699	—	—	—	11,699
Citigroup, Inc.	1,145	(1,145)	—	—	—
Commonwealth Bank of Australia	18,872	—	—	—	18,872
Credit Suisse	2,224	—	—	—	2,224
JPMorgan Chase Securities, Inc.	1,288	—	—	—	1,288
Macquarie Bank Ltd.	24,937	(733)	—	—	24,204
Morgan Stanley	31,194	(31,194)	—	—	—
National Australia Bank Ltd.	8,342	—	—	—	8,342
Nomura International PLC	15,684	(15,684)	—	—	—
Societe Generale	237,126	(79,129)	—	—	157,997
UBS AG	20,210	(11,627)	—	—	8,583
	$ 656,754	**$ (359,562)**	**$ —**	**$ —**	**$ 297,192**

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
Bank of America	$ 99,004	$ (99,004)	$ —	$ —	$ —
Barclays Bank PLC	210,804	(67,072)	—	—	143,732
BNP Paribas	100,295	(53,974)	—	—	46,321
Citigroup, Inc.	493,270	(1,145)	—	(492,125)	—
Macquarie Bank Ltd.	733	(733)	—	—	—
Morgan Stanley	154,068	(31,194)	—	(122,874)	—
Nomura International PLC	84,533	(15,684)	—	(46,331)	22,518
Societe Generale	79,129	(79,129)	—	—	—
UBS AG	11,627	(11,627)	—	—	—
	$ 1,233,463	**$ (359,562)**	**$ —**	**$ (661,330)**	**$ 212,571**

(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, 2015, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $105,950,093 and $87,788,253, respectively. Purchases and sales of U.S. Treasury obligations aggregated $10,828,374 and $8,294,297, respectively.

For the six months ended June 30, 2015, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premium
Outstanding, beginning of period	37,000,000	$ 517,417
Options closed	(4,000,000)	(41,134)
Options expired	(3,800,000)	(43,794)
Outstanding, end of period	**29,200,000**	**$ 432,489**

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, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annualized rate (exclusive of any applicable waivers/reimbursements) of 0.37% of the Fund's average daily net assets.

The Fund did not impose a portion of its management fee by an amount equal to the amount of management fee borne by the Fund as a shareholder of the Deutsche Floating Rate Fund. For the six months ended June 30, 2015, the Advisor waived $31,838 of its management fee.

For the period from January 1, 2015 through September 30, 2015, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A shares at 0.73%.

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, 2015, the Administration Fee was $121,283, of which $19,934 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, 2015, the amounts charged to the Fund by DSC aggregated $198, 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated 9,790, of which $9,597 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 1940 Act, 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, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $3,538.

E. Ownership of the Fund

At June 30, 2015, three participating insurance companies were owners of record of 10% or more of the total outstanding shares of the Fund, each owning 44%, 20% and 17%.

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 the one-month 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, 2015.

G. Transactions with Affiliates

The Underlying Deutsche Funds in which the Fund invests are considered to be affiliated investments. A summary of the Fund's transactions with affiliated Deutsche Funds during the six months ended June 30, 2015 is as follows:

Affiliate	Value ($) at 12/31/2014	Purchases Cost ($)	Sales Cost ($)	Realized Gain/ (Loss) ($)	Income Distributions ($)	Value ($) at 6/30/2015
Deutsche Floating Rate Fund	—	14,914,998	3,680,124	—	235,375	11,307,152
Central Cash Management Fund	26,756,478	69,366,569	90,199,536	—	3,700	5,923,511
Total	**26,756,478**	**84,281,567**	**93,879,660**	**—**	**239,075**	**17,230,663**

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, 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, 2015 to June 30, 2015).

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, 2015

Actual Fund Return	**Class A**
Beginning Account Value 1/1/15	$1,000.00
Ending Account Value 6/30/15	$1,026.00
Expenses Paid per $1,000*	$ 2.91
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/15	$1,000.00
Ending Account Value 6/30/15	$1,021.92
Expenses Paid per $1,000*	$ 2.91

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

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

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

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

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to 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 Deutsche Global Income Builder VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

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

— In September 2014, 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 counsel to discuss contract review and other matters. In addition, the Independent Trustees were 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 ("DB"), 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 Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's 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 index(es) 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 a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 1st 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 outperformed its benchmark in the one-, three- and five-year periods ended December 31, 2013.

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, 2013). 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, 2013, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). 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 that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. 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 information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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 Deutsche U.S. mutual funds ("Deutsche 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 DIMA 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.

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 Deutsche 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 DIMA's 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 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

VS2GIB-3 (R-028382-4 8/15)

Deutsche Asset
& Wealth Management

June 30, 2015

Semiannual Report

Deutsche Variable Series I

Deutsche Global Small Cap 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.

Stocks may decline in value. Smaller company stocks tend to be more volatile than medium-sized or large company stocks. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Emerging markets tend to be more volatile than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. The Fund may lend securities to approved institutions. See the prospectus for details.

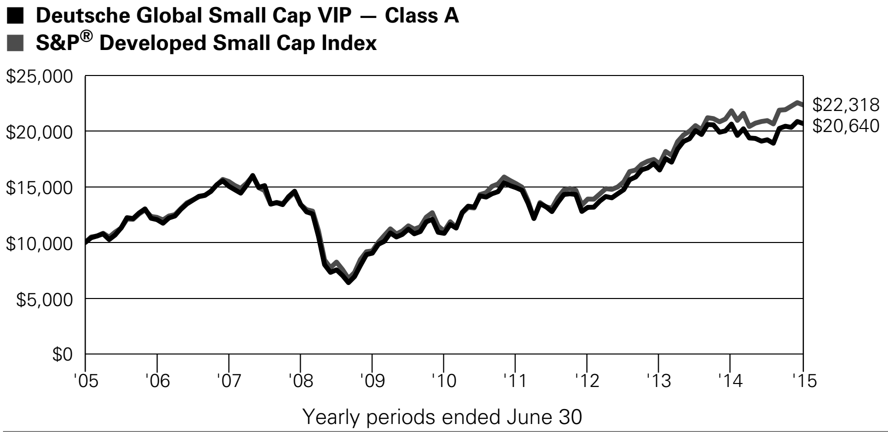
Performance Summary

June 30, 2015 (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, 2015 are 1.13% and 1.41% 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	$10,754	$10,020	$15,701	$19,086	$20,640
	Average annual total return	7.54%	0.20%	16.23%	13.80%	7.52%
S&P Developed Small Cap Index	Growth of $10,000	$10,670	$10,242	$16,078	$20,268	$22,318
	Average annual total return	6.70%	2.42%	17.15%	15.18%	8.36%

Deutsche Global Small Cap VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,730	$9,989	$15,574	$18,849	$20,098
	Average annual total return	7.30%	–0.11%	15.91%	13.52%	7.23%
S&P Developed Small Cap Index	Growth of $10,000	$10,670	$10,242	$16,078	$20,268	$22,318
	Average annual total return	6.70%	2.42%	17.15%	15.18%	8.36%

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)	**6/30/15**	**12/31/14**
Common Stocks	98%	95%
Cash Equivalents	2%	5%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/15**	**12/31/14**
United States	45%	47%
Continental Europe	20%	16%
United Kingdom	13%	13%
Japan	8%	8%
Asia (excluding Japan)	8%	10%
Canada	2%	3%
Latin America	1%	1%
Australia	1%	1%
Other	2%	1%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/15**	**12/31/14**
Consumer Discretionary	25%	25%
Industrials	24%	24%
Health Care	16%	14%
Financials	14%	15%
Information Technology	9%	10%
Consumer Staples	8%	8%
Energy	2%	3%
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 5.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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

Investment Portfolio

June 30, 2015 (Unaudited)

	Shares	Value ($)
Common Stocks 95.5%		
Australia 1.2%		
Austal Ltd.	496,297	708,811
G8 Education Ltd. (a)	399,767	1,008,941
(Cost $1,788,196)		**1,717,752**
Bermuda 1.1%		
Lazard Ltd. "A" (b) (Cost $701,446)	28,653	**1,611,445**
Canada 2.2%		
Quebecor, Inc. "B"	62,232	1,555,823
SunOpta, Inc.*	150,623	1,616,185
(Cost $2,430,443)		**3,172,008**
China 1.0%		
Minth Group Ltd. (Cost $210,813)	629,036	**1,407,725**
Finland 0.9%		
Cramo Oyj (Cost $1,466,738)	67,902	**1,311,197**
France 3.6%		
Flamel Technologies SA (ADR)*	150,190	3,182,526
JC Decaux SA (a)	33,561	1,400,560
Parrot SA*	9,450	423,989
(Cost $2,806,995)		**5,007,075**
Germany 5.2%		
M.A.X. Automation AG	144,718	876,715
Patrizia Immobilien AG*	62,314	1,523,630
Rational AG	3,390	1,245,380
United Internet AG (Registered)	56,164	2,494,535
VIB Vermoegen AG	62,640	1,118,387
(Cost $2,876,642)		**7,258,647**
Hong Kong 3.0%		
K Wah International Holdings Ltd.	2,052,757	1,092,458
Playmates Toys Ltd.	3,085,522	597,078
REXLot Holdings Ltd.	12,174,509	691,262
Sun Hung Kai & Co., Ltd.	453,790	410,337
Techtronic Industries Co., Ltd.	413,169	1,363,421
(Cost $3,233,235)		**4,154,556**
Indonesia 0.4%		
PT Arwana Citramulia Tbk (Cost $879,310)	12,873,609	**511,566**
Ireland 3.5%		
Greencore Group PLC	292,742	1,442,782
Paddy Power PLC (c)	28	2,413
Paddy Power PLC (c)	15,246	1,306,559
Ryanair Holdings PLC	157,885	2,080,533
(Cost $1,926,358)		**4,832,287**
Italy 0.9%		
Prysmian SpA (Cost $1,218,595)	62,011	**1,336,362**
Japan 7.7%		
Ai Holdings Corp.	70,717	1,253,747
Avex Group Holdings, Inc.	64,134	1,127,968
Kusuri No Aoki Co., Ltd.	57,758	2,566,618
MISUMI Group, Inc.	85,074	1,210,587
Nippon Seiki Co., Ltd.	99,964	1,989,637
United Arrows Ltd.	28,157	883,909
Universal Entertainment Corp.	48,914	1,106,470
UT Holdings Co., Ltd.*	137,124	681,222
(Cost $6,551,902)		**10,820,158**
Korea 0.3%		
Suprema, Inc.* (Cost $404,017)	19,854	**409,379**
Malaysia 1.6%		
Hartalega Holdings Bhd.	207,923	469,517
Nirvana Asia Ltd. 144A	3,090,512	841,249
Tune Ins Holdings Bhd.	2,059,414	897,128
(Cost $2,404,792)		**2,207,894**
Netherlands 2.3%		
Brunel International NV	52,572	1,045,474
Constellium NV "A"* (d)	97,322	1,151,319
SBM Offshore NV*	87,012	1,029,820
(Cost $4,060,300)		**3,226,613**
Panama 0.9%		
Banco Latinoamericano de Comercio Exterior SA "E" (Cost $900,245)	37,518	**1,207,329**
Philippines 0.7%		
Alliance Global Group, Inc. (Cost $629,231)	2,124,750	**1,024,261**
Singapore 0.5%		
Lian Beng Group Ltd. (Cost $497,436)	1,610,055	**651,357**
Spain 0.6%		
Talgo SA 144A* (Cost $1,037,489)	98,842	**791,193**
Sweden 0.7%		
Nobina AB 144A* (Cost $1,074,839)	256,738	**972,463**
Switzerland 0.9%		
Dufry AG (Registered)* (Cost $1,038,337)	8,930	**1,245,504**
Thailand 0.4%		
Malee Sampran PCL (Foreign Registered) (Cost $894,585)	562,780	**533,196**
United Kingdom 12.8%		
Arrow Global Group PLC	355,100	1,475,780
Babcock International Group PLC	163,727	2,776,498
Clinigen Healthcare Ltd.	127,880	1,252,807
Crest Nicholson Holdings PLC	185,815	1,637,201
Domino's Pizza Group PLC	94,205	1,149,550
Hargreaves Lansdown PLC	74,001	1,341,533
HellermannTyton Group PLC	253,349	1,372,615
Howden Joinery Group PLC	216,784	1,758,694
Jardine Lloyd Thompson Group PLC	53,894	885,810
Nanoco Group PLC*	431,419	644,245
Polypipe Group PLC	348,981	1,488,733
Rotork PLC	275,960	1,008,559
Spirax-Sarco Engineering PLC	20,226	1,078,308
(Cost $12,077,352)		**17,870,333**

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

	Shares	Value ($)
United States 43.1%		
ACADIA Pharmaceuticals, Inc.* (a)	10,031	420,098
Advance Auto Parts, Inc.	8,980	1,430,424
Affiliated Managers Group, Inc.*	7,410	1,619,826
Altra Industrial Motion Corp.	19,789	537,865
AZZ, Inc.	8,437	437,037
BE Aerospace, Inc.	15,735	863,852
Berry Plastics Group, Inc.*	30,294	981,526
Cardtronics, Inc.*	36,148	1,339,283
Casey's General Stores, Inc.	18,079	1,730,884
Cognex Corp.	21,722	1,044,828
CONMED Corp.	17,173	1,000,671
DigitalGlobe, Inc.*	29,587	822,223
Encore Capital Group, Inc.* (a)	19,217	821,335
Fogo De Chao, Inc.*	30,508	706,565
Fox Factory Holding Corp.*	78,392	1,260,543
Gentherm, Inc.*	33,726	1,851,895
Hain Celestial Group, Inc.*	16,720	1,101,179
HeartWare International, Inc.*	8,452	614,376
Jack in the Box, Inc.	16,798	1,480,912
Jarden Corp.* (a)	24,008	1,242,414
Kindred Healthcare, Inc.	54,531	1,106,434
Knowles Corp.* (a)	35,020	633,862
Leucadia National Corp.	48,420	1,175,638
Middleby Corp.*	17,054	1,913,970
Molina Healthcare, Inc.* (a)	27,849	1,957,785
Neurocrine Biosciences, Inc.*	9,251	441,828
NxStage Medical, Inc.*	40,484	578,314
Oil States International, Inc.*	17,583	654,615
OvaScience, Inc.* (a)	10,426	301,624
Pacific Ethanol, Inc.* (a)	55,920	577,094
Pacira Pharmaceuticals, Inc.*	16,414	1,160,798
PAREXEL International Corp.*	22,064	1,418,936
Primoris Services Corp.	60,064	1,189,267
Providence Service Corp.*	46,636	2,065,042
Retrophin, Inc.*	63,162	2,093,820
Roadrunner Transportation Systems, Inc.*	37,218	960,224
Sinclair Broadcast Group, Inc. "A" (a)	44,506	1,242,162
Sunshine Heart, Inc.*	63,829	220,210
Super Micro Computer, Inc.*	24,066	711,872
Tenneco, Inc.*	22,899	1,315,319
The WhiteWave Foods Co.*	36,847	1,801,081
Thoratec Corp.*	40,086	1,786,633
TiVo, Inc.*	91,584	928,662
TriNet Group, Inc.*	33,626	852,419
TriState Capital Holdings, Inc.*	67,982	879,007
United Rentals, Inc.*	4,399	385,440
Urban Outfitters, Inc.* (a)	35,491	1,242,185
VeriFone Systems, Inc.*	38,705	1,314,422
WABCO Holdings, Inc.*	15,736	1,946,858
Waddell & Reed Financial, Inc. "A" (a)	29,123	1,377,809
WEX, Inc.*	5,994	683,136
Zeltiq Aesthetics, Inc.*	58,340	1,719,280
Zions Bancorp.	39,196	1,243,885
Zoe's Kitchen, Inc.*	23,488	961,599
(Cost $40,714,228)		**60,148,966**
Total Common Stocks (Cost $91,823,524)		**133,429,266**

Preferred Stock 0.2%

United States

	Shares	Value ($)
Providence Service Corp. (Cost $196,900)	1,969	**196,762**

Rights 0.1%

United States

	Shares	Value ($)
Furiex Pharmaceuticals, Inc.* (Cost $104,334)	10,679	**104,334**

Securities Lending Collateral 7.7%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.16% (e) (f) (Cost $10,785,694)	10,785,694	**10,785,694**

Cash Equivalents 2.1%

	Shares	Value ($)
Central Cash Management Fund, 0.09% (e) (Cost $2,989,336)	2,989,336	**2,989,336**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $105,899,788)†	105.6	**147,505,392**
Other Assets and Liabilities, Net (a)	(5.6)	**(7,822,122)**
Net Assets	100.0	**139,683,270**

* Non-income producing security.

† The cost for federal income tax purposes was $108,172,250. At June 30, 2015, net unrealized appreciation for all securities based on tax cost was $39,333,142. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $47,906,771 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $8,573,629.

(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, 2015 amounted to $10,518,628, which is 7.5% of net assets.

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

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

(d) Listed on the New York Stock Exchange.

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

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

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

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, 2015 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	$ —	$ 1,717,752	$ —	$ 1,717,752
Bermuda	1,611,445	—	—	1,611,445
Canada	3,172,008	—	—	3,172,008
China	—	1,407,725	—	1,407,725
Finland	—	1,311,197	—	1,311,197
France	3,182,526	1,824,549	—	5,007,075
Germany	—	7,258,647	—	7,258,647
Hong Kong	—	3,463,294	691,262	4,154,556
Indonesia	—	511,566	—	511,566
Ireland	—	4,832,287	—	4,832,287
Italy	—	1,336,362	—	1,336,362
Japan	—	10,820,158	—	10,820,158
Korea	—	409,379	—	409,379
Malaysia	—	2,207,894	—	2,207,894
Netherlands	1,151,319	2,075,294	—	3,226,613
Panama	1,207,329	—	—	1,207,329
Philippines	—	1,024,261	—	1,024,261
Singapore	—	651,357	—	651,357
Spain	—	791,193	—	791,193
Sweden	—	972,463	—	972,463
Switzerland	—	1,245,504	—	1,245,504
Thailand	—	533,196	—	533,196
United Kingdom	—	17,870,333	—	17,870,333
United States	60,148,966	—	—	60,148,966
Preferred Stock	—	—	196,762	196,762
Rights	—	—	104,334	104,334
Short-Term Investments (g)	13,775,030	—	—	13,775,030
Total	**$ 84,248,623**	**$ 62,264,411**	**$ 992,358**	**$147,505,392**

During the period ended June 30, 2015, the amount of transfers between Level 2 and Level 3 was $1,197,890. The investment was transferred from Level 2 to Level 3 because the security was halted on the exchange and is valued at the last traded price. A significant change between the last traded price and the price of the security once it resumes trading on the securities exchange could have a material change in the fair value measurement.

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

(g) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of June 30, 2015 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $92,124,758) — including $10,518,628 of securities loaned	$	133,730,362
Investment in Daily Assets Fund Institutional (cost $10,785,694)*		10,785,694
Investment in Central Cash Management Fund (cost $2,989,336)		2,989,336
Total investments in securities, at value (cost $105,899,788)		147,505,392
Foreign currency, at value (cost $859,190)		860,643
Receivable for investments sold		2,123,904
Receivable for Fund shares sold		3,964
Dividends receivable		194,823
Interest receivable		4,238
Foreign taxes recoverable		88,595
Other assets		1,169
Total assets		150,782,728

Liabilities		
Payable upon return of securities loaned		10,785,694
Payable for investments purchased		34,605
Payable for Fund shares redeemed		94,077
Accrued management fee		90,306
Accrued Trustees' fees		687
Other accrued expenses and payables		94,089
Total liabilities		11,099,458
Net assets, at value	**$**	**139,683,270**

Net Assets Consist of		
Distributions in excess of net investment income		(1,156,344)
Net unrealized appreciation (depreciation) on:		
Investments		41,605,604
Foreign currency		(6,151)
Accumulated net realized gain (loss)		4,550,062
Paid-in capital		94,690,099
Net assets, at value	**$**	**139,683,270**
Class A		
Net Asset Value, offering and redemption price per share ($136,647,398 ÷ 9,763,731 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**14.00**
Class B		
Net Asset Value, offering and redemption price per share ($3,035,872 ÷ 222,057 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**13.67**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2015 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $37,976)	$	1,160,384
Income distributions — Central Cash Management Fund		1,042
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		21,431
Total income		1,182,857
Expenses:		
Management fee		617,354
Administration fee		69,366
Services to shareholders		1,198
Distribution service fee (Class B)		3,628
Record keeping fee (Class B)		497
Custodian fee		28,767
Professional fees		36,714
Reports to shareholders		16,804
Trustees' fees and expenses		3,952
Other		13,810
Total expenses before expense reductions		792,090
Expense reductions		(101,782)
Total expenses after expense reductions		690,308
Net investment income (loss)		**492,549**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		5,285,554
Foreign currency		(22,959)
		5,262,595
Change in net unrealized appreciation (depreciation) on:		
Investments		4,258,523
Foreign currency		4,165
		4,262,688
Net gain (loss)		**9,525,283**
Net increase (decrease) in net assets resulting from operations	**$**	**10,017,832**

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, 2015 (Unaudited)	Year Ended December 31, 2014
Operations:		
Net investment income (loss)	$ 492,549	$ 395,121
Net realized gain (loss)	5,262,595	14,181,990
Change in net unrealized appreciation (depreciation)	4,262,688	(20,736,955)
Net increase (decrease) in net assets resulting from operations	10,017,832	(6,159,844)
Distributions to shareholders from:		
Net investment income:		
Class A	(1,276,149)	(1,278,879)
Class B	(19,017)	(17,935)
Net realized gains:		
Class A	(13,898,697)	(16,572,319)
Class B	(305,692)	(315,539)
Total distributions	(15,499,555)	(18,184,672)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,557,709	5,579,529
Reinvestment of distributions	15,174,846	17,851,198
Payments for shares redeemed	(10,496,184)	(18,702,818)
Net increase (decrease) in net assets from Class A share transactions	7,236,371	4,727,909
Class B		
Proceeds from shares sold	281,674	1,189,539
Reinvestment of distributions	324,709	333,474
Payments for redeemed	(226,948)	(885,837)
Net increase (decrease) in net assets from Class B share transactions	379,435	637,176
Increase (decrease) in net assets	2,134,083	(18,979,431)
Net assets at beginning of period	137,549,187	156,528,618
Net assets at end of period (including distributions in excess of net investment income of $1,156,344 and $353,727, respectively)	**$ 139,683,270**	**$ 137,549,187**

Other Information		
Class A		
Shares outstanding at beginning of period	9,224,528	8,893,756
Shares sold	171,328	350,707
Shares issued to shareholders in reinvestment of distributions	1,081,600	1,182,981
Shares redeemed	(713,725)	(1,202,916)
Net increase (decrease) in Class A shares	539,203	330,772
Shares outstanding at end of period	**9,763,731**	**9,224,528**
Class B		
Shares outstanding at beginning of period	194,372	154,023
Shares sold	19,570	77,557
Shares issued to shareholders in reinvestment of distributions	23,684	22,563
Shares redeemed	(15,569)	(59,771)
Net increase (decrease) in Class B shares	27,685	40,349
Shares outstanding at end of period	**222,057**	**194,372**

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

Financial Highlights

Class A

	Six Months Ended 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$14.61**	**$17.31**	**$13.78**	**$12.67**	**$14.28**	**$11.32**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.05	.04	.04	.09	.08	.05
Net realized and unrealized gain (loss)	1.05	(.69)	4.66	1.83	(1.45)	2.96
Total from investment operations	1.10	(.65)	4.70	1.92	(1.37)	3.01
Less distributions from:						
Net investment income	(.14)	(.15)	(.10)	(.09)	(.24)	(.05)
Net realized gains	(1.57)	(1.90)	(1.07)	(.72)	—	—
Total distributions	(1.71)	(2.05)	(1.17)	(.81)	(.24)	(.05)
Net asset value, end of period	**$14.00**	**$14.61**	**$17.31**	**$13.78**	**$12.67**	**$14.28**
Total Return (%)[b]	7.54**	(4.13)	35.94	15.37	(9.90)	26.64
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	137	135	154	124	123	158
Ratio of expenses before expense reductions (%)	1.14*	1.13	1.14	1.11	1.12	1.12
Ratio of expenses after expense reductions (%)	.99*	.97	.94	.98	1.00	1.04
Ratio of net investment income (loss) (%)	.72*	.27	.28	.69	.57	.42
Portfolio turnover rate (%)	14**	33	39	36	31	39

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 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$14.29**	**$16.97**	**$13.52**	**$12.45**	**$14.03**	**$11.11**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.03	.00*	.01	.06	.05	.03
Net realized and unrealized gain (loss)	1.02	(.67)	4.57	1.79	(1.43)	2.90
Total from investment operations	1.05	(.67)	4.58	1.85	(1.38)	2.93
Less distributions from:						
Net investment income	(.10)	(.11)	(.06)	(.06)	(.20)	(.01)
Net realized gains	(1.57)	(1.90)	(1.07)	(.72)	—	—
Total distributions	(1.67)	(2.01)	(1.13)	(.78)	(.20)	(.01)
Net asset value, end of period	**$13.67**	**$14.29**	**$16.97**	**$13.52**	**$12.45**	**$14.03**
Total Return (%)[b]	7.30**	(4.33)	35.67	15.01	(10.08)	26.38
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	3	3	3	2	2	2
Ratio of expenses before expense reductions (%)	1.43*	1.41	1.34	1.43	1.38	1.34
Ratio of expenses after expense reductions (%)	1.24*	1.25	1.15	1.23	1.25	1.26
Ratio of net investment income (loss) (%)	.47*	.02	.07	.44	.32	.20
Portfolio turnover rate (%)	14**	33	39	36	31	39

a Based on average shares outstanding during the period.

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

* Amount is less than $.005.

* Annualized

** Not annualized

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

Deutsche 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 Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® International VIP (formerly Deutsche International VIP) and Deutsche Global Small Cap VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). 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, 2015, 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, 2014 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, 2015, purchases and sales of investment securities (excluding short-term investments) aggregated $18,346,182 and $24,605,470, 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, 2015, the fee pursuant to the Investment Management agreement was equivalent to an annualized rate (exclusive of any applicable waivers/reimbursements) of 0.89% of the Fund's average daily net assets.

For the period from January 1, 2015 through April 30, 2016, 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 total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.99%
Class B	1.24%

For the six months ended June 30, 2015, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 99,079
Class B	2,703
	$ 101,782

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, 2015, the Administration Fee was $69,366, of which $11,745 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, 2015, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2015
Class A	$ 227	$ 107
Class B	96	48
	$ 323	**$ 155**

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, 2015, the Distribution Service Fee aggregated $3,628, of which $622 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under “Reports to shareholders“ aggregated $7,843, of which $6,920 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 1940 Act, 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, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $1,864.

D. Ownership of the Fund

At June 30, 2015, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 53%, 14% and 10%, 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 65% and 22%, 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 the one-month 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, 2015.

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, 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, 2015 to June 30, 2015).

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, 2015

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$1,075.40	$1,073.00
Expenses Paid per $1,000*	$ 5.09	$ 6.37
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$1,019.89	$1,018.65
Expenses Paid per $1,000*	$ 4.96	$ 6.21

* 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 I — Deutsche Global Small Cap VIP	.99%	1.24%

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

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

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 Deutsche Global Small Cap VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

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

— In September 2014, 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 counsel to discuss contract review and other matters. In addition, the Independent Trustees were 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 ("DB"), 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 Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's 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 market index 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 a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 1st 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- and five-year periods and has underperformed its benchmark in the three-year period ended December 31, 2013.

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, 2013). 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, 2013) ("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 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 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 information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it manages an institutional account comparable to the Fund, but does not manage any comparable Deutsche Europe funds. The Board took note of the differences in services provided to Deutsche U.S. mutual funds ("Deutsche Funds") as compared to institutional accounts and that such differences made comparison difficult.

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 Deutsche 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 DIMA 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.

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 Deutsche 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 DIMA's 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 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

VS1glosc-3 (R-028377-4 8/15)

Deutsche Asset
& Wealth Management

June 30, 2015

Semiannual Report

Deutsche Variable Series II

Deutsche 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.

Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Bond investments are subject to interest-rate, credit, liquidity and market risks to varying degrees. 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. The "full faith and credit" guarantee of the US government applies to the timely repayment of interest, and does not eliminate market risk. Because of the rising US government debt burden, it is possible that the US government may not be able to meet its financial obligations or that securities issued by the US government may experience credit downgrades. 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

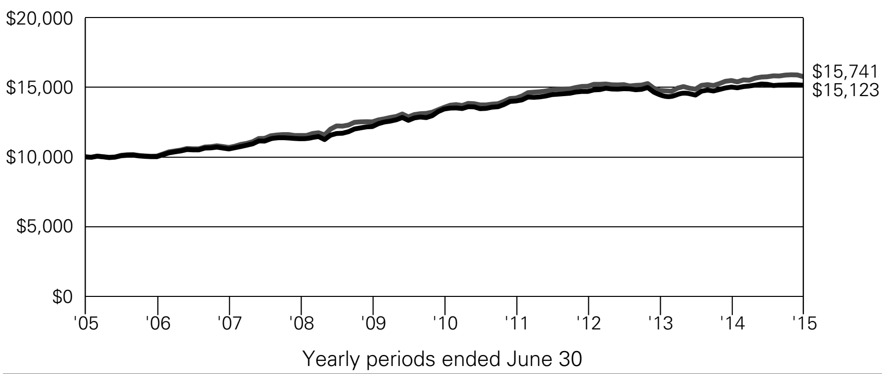
Performance Summary

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, 2015 are 0.72% 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

■ **Deutsche Government & Agency Securities VIP — Class A**
■ **Barclays GNMA Index**



The Barclays GNMA Index is an unmanaged, market-value-weighted measure of all fixed-rate securities backed by mortgage pools of the Government National Mortgage Association.

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

Comparative Results

Deutsche Government & Agency Securities VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$9,963	$10,091	$10,309	$11,267	$15,123
	Average annual total return	–0.37%	0.91%	1.02%	2.41%	4.22%
Barclays GNMA Index	Growth of $10,000	$10,012	$10,188	$10,466	$11,630	$15,741
	Average annual total return	0.12%	1.88%	1.53%	3.07%	4.64%

Deutsche Government & Agency Securities VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$9,937	$10,057	$10,203	$11,072	$14.589
	Average annual total return	–0.63%	0.57%	0.67%	2.06%	3.85%
Barclays GNMA Index	Growth of $10,000	$10,012	$10,188	$10,466	$11,630	$15,741
	Average annual total return	0.12%	1.88%	1.53%	3.07%	4.64%

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 Net Assets)	**6/30/15**	**12/31/14**
Mortgage-Backed Securities Pass-Throughs	76%	71%
Collateralized Mortgage Obligations	26%	26%
Government & Agency Obligations	6%	19%
Short-Term US Treasury Obligations	1%	1%
Cash Equivalents and Other Assets and Liabilities, net	–9%	–17%
	100%	100%

Coupons*	**6/30/15**	**12/31/14**
Less than 4.5%	47%	50%
4.5%–5.49%	30%	34%
5.5%–6.49%	15%	14%
6.5%–7.49%	8%	2%
7.5% and Greater	0%	0%
	100%	100%

Interest Rate Sensitivity	**6/30/15**	**12/31/14**
Effective Maturity	8.8 years	9.7 years
Effective Duration	5.8 years	7.8 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 5.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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 76.2%		
Federal Home Loan Mortgage Corp., 3.5%, 12/1/2042 (a)	6,000,000	6,170,625
Federal National Mortgage Association:		
3.5%, 12/1/2042 (a)	5,000,000	5,151,953
4.0%, 5/1/2042 (a)	1,000,000	1,059,375
Government National Mortgage Association:		
3.0%, with various maturities from 4/1/2043 until 10/20/2044 (a)	4,882,112	4,933,363
3.5%, with various maturities from 4/15/2042 until 5/1/2043 (a)	5,186,443	5,398,516
4.0%, with various maturities from 9/20/2040 until 6/20/2043	3,908,241	4,189,027
4.5%, with various maturities from 6/20/2033 until 2/20/2043	9,762,439	10,609,013
4.55%, 1/15/2041	330,218	360,834
4.625%, 5/15/2041	190,503	209,981
5.0%, with various maturities from 11/20/2032 until 4/15/2042	9,699,432	10,849,316
5.5%, with various maturities from 10/15/2032 until 7/20/2040	6,309,054	7,121,656
6.0%, with various maturities from 2/15/2034 until 2/15/2039	5,304,593	6,046,775
6.5%, with various maturities from 9/15/2036 until 2/15/2039	636,463	727,738
7.0%, with various maturities from 2/20/2027 until 11/15/2038	110,718	130,337
7.5%, 10/20/2031	6,572	7,834
Total Mortgage-Backed Securities Pass-Throughs (Cost $61,810,546)		**62,966,343**
Collateralized Mortgage Obligations 25.9%		
Federal Home Loan Mortgage Corp.:		
"OA", Series 3179, Principal Only, Zero Coupon, 7/15/2036	149,537	138,348
"KO", Series 4180, Principal Only, Zero Coupon, 1/15/2043	1,269,464	815,102
"YI", Series 3936, Interest Only, 3.0%, 6/15/2025	80,337	4,614
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025	972,206	75,654
"WI", Series 3939, Interest Only, 3.0%, 10/15/2025	337,513	23,679
"EI", Series 3953, Interest Only, 3.0%, 11/15/2025	487,890	37,970
"IO", Series 3974, Interest Only, 3.0%, 12/15/2025	155,781	13,666
"DI", Series 4010, Interest Only, 3.0%, 2/15/2027	126,824	12,746
"IK", Series 4048, Interest Only, 3.0%, 5/15/2027	1,258,747	149,226
"PZ", Series 4094, 3.0%, 8/15/2042	395,842	374,887
"CZ", Series 4113, 3.0%, 9/15/2042	381,533	375,218
"ZT", Series 4165, 3.0%, 2/15/2043	478,787	455,198
"IK", Series 3754, Interest Only, 3.5%, 6/15/2025	716,637	65,755
"VZ", Series 4303, 3.5%, 8/15/2042	1,047,702	1,009,513
"ZG", Series 4213, 3.5%, 6/15/2043	189,022	183,403
"PI", Series 3940, Interest Only, 4.0%, 2/15/2041	524,634	102,318
"KZ", Series 4328, 4.0%, 4/15/2044	94,450	96,805
"UZ", Series 4341, 4.0%, 5/15/2044	704,555	753,534
"UA", Series 4298, 4.0%, 2/15/2054	330,110	345,290
"22", Series 243, Interest Only, 4.3%*, 6/15/2021	266,128	10,929
"MI", Series 3871, Interest Only, 6.0%, 4/15/2040	107,476	14,739
"SP", Series 4047, Interest Only, 6.465%*, 12/15/2037	566,608	92,702
"A", Series 172, Interest Only, 6.5%, 1/1/2024	15,198	2,748
"DS", Series 3199, Interest Only, 6.965%*, 8/15/2036	1,643,813	352,209
"S", Series 2416, Interest Only, 7.915%*, 2/15/2032	228,214	51,000
"ST", Series 2411, Interest Only, 8.565%*, 6/15/2021	323,722	19,841
"KS", Series 2064, Interest Only, 9.965%*, 5/15/2022	216,244	45,854
Federal National Mortgage Association:		
"DI", Series 2011-136, Interest Only, 3.0%, 1/25/2026	147,420	12,580
"HI", Series 2010-123, Interest Only, 3.5%, 3/25/2024	220,406	11,305
"KI", Series 2011-72, Interest Only, 3.5%, 3/25/2025	654,142	30,380
"IO", Series 2012-146, Interest Only, 3.5%, 1/25/2043	1,787,277	412,416
"4", Series 406, Interest Only, 4.0%, 9/25/2040	359,772	74,113
"ZB", Series 2010-136, 4.0%, 12/25/2040	150,838	159,105
"AZ", Series 2012-29, 4.0%, 4/25/2042	1,511,927	1,593,675
"HZ", Series 2013-20, 4.0%, 3/25/2043	1,584,747	1,631,275
"25", Series 351, Interest Only, 4.5%, 5/25/2019	96,295	5,951
"IN", Series 2003-49, Interest Only, 4.75%, 3/25/2018	137,439	1,038
"21", Series 334, Interest Only, 5.0%, 3/25/2018	36,207	1,777
"20", Series 334, Interest Only, 5.0%, 3/25/2018	57,604	2,874
"23", Series 339, Interest Only, 5.0%, 6/25/2018	81,597	4,071
"26", Series 381, Interest Only, 5.0%, 12/25/2020	34,265	2,810
"ZA", Series 2008-24, 5.0%, 4/25/2038	753,821	827,453
"30", Series 381, Interest Only, 5.5%, 11/25/2019	195,597	16,187
"PI", Series 2009-14, Interest Only, 5.5%, 3/25/2024	329,410	36,912
"PJ", Series 2004-46, Interest Only, 5.813%*, 3/25/2034	253,630	35,056

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	209,656	22,387
"101", Series 383, Interest Only, 6.5%, 9/25/2022	700,651	98,010
"SJ", Series 2007-36, Interest Only, 6.583%*, 4/25/2037	137,697	23,618
"KI", Series 2005-65, Interest Only, 6.813%*, 8/25/2035	75,527	14,404
"SA", Series G92-57, IOette, 83.104%*, 10/25/2022	26,676	46,294
Government National Mortgage Association:		
"KZ", Series 2014-102, 3.5%, 7/16/2044	1,858,600	1,763,082
"BI", Series 2014-22, Interest Only, 4.0%, 2/20/2029	876,797	117,186
"JY", Series 2010-20, 4.0%, 12/20/2033	2,138,155	2,266,698
"IP", Series 2015-50, Interest Only, 4.0%, 9/20/2040	1,980,999	359,247
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	592,269	104,753
"LI", Series 2009-104, Interest Only, 4.5%, 12/16/2018	124,400	6,575
"NI", Series 2010-44, Interest Only, 4.5%, 10/20/2037	334,179	24,727
"CI", Series 2010-87, Interest Only, 4.5%, 11/20/2038	1,251,588	290,601
"PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039	446,185	89,404
"MI", Series 2010-169, Interest Only, 4.5%, 8/20/2040	565,479	84,925
"Z", Series 2010-169, 4.5%, 12/20/2040	585,170	651,010
"IP", Series 2014-115, Interest Only, 4.5%, 2/20/2044	315,815	64,178
"GZ", Series 2005-24, 5.0%, 3/20/2035	558,674	647,378
"ZA", Series 2005-75, 5.0%, 10/16/2035	628,499	721,081
"MZ", Series 2009-98, 5.0%, 10/16/2039	1,127,751	1,335,815
"Z", Series 2009-112, 5.0%, 11/20/2039	1,321,261	1,470,508
"AI", Series 2008-46, Interest Only, 5.5%, 5/16/2023	125,463	8,250
"GI", Series 2003-19, Interest Only, 5.5%, 3/16/2033	587,330	124,950
"IB", Series 2010-130, Interest Only, 5.5%, 2/20/2038	167,020	34,833
"BS", Series 2011-93, Interest Only, 5.915%*, 7/16/2041	954,912	166,109
"DI", Series 2009-10, Interest Only, 6.0%, 4/16/2038	238,403	39,552
"SA", Series 2012-84, Interest Only, 6.113%*, 12/20/2038	1,065,508	145,098
"QA", Series 2007-57, Interest Only, 6.313%*, 10/20/2037	224,058	41,385
"IP", Series 2009-118, Interest Only, 6.5%, 12/16/2039	61,286	13,404
"IC", Series 1997-4, Interest Only, 7.5%, 3/16/2027	436,547	113,467
"SK", Series 2003-11, Interest Only, 7.515%*, 2/16/2033	373,760	71,076
Total Collateralized Mortgage Obligations (Cost $19,079,364)		**21,441,931**

Government & Agency Obligations 5.4%

U.S. Treasury Obligations

	Principal Amount ($)	Value ($)
U.S. Treasury Bonds:		
2.875%, 5/15/2043	1,500,000	1,429,453
3.375%, 5/15/2044	1,000,000	1,050,391
U.S. Treasury Note, 1.0%, 9/30/2016 (b) (c)	2,000,000	2,015,156
Total Government & Agency Obligations (Cost $4,400,235)		**4,495,000**

Short-Term U.S. Treasury Obligation 1.3%

	Principal Amount ($)	Value ($)
U.S. Treasury Bill, 0.06%**, 8/13/2015 (d) (Cost $1,044,925)	1,045,000	**1,045,000**

Call Options Purchased 0.1%

Options on Interest Rate Swap Contracts

	Contract Amount	Value ($)
Pay Fixed Rate — 3.72% – Receive Floating — 3-Month LIBOR, Swap Expiration Date 4/22/2026, Option Expiration Date 4/20/2016[1]	2,600,000	9,609
Pay Fixed Rate — 4.32% – Receive Floating — 3-Month LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[2]	6,000,000	31,740
Total Call Options Purchased (Cost $390,446)		**41,349**

Put Options Purchased 0.1%

Options on Interest Rate Swap Contracts

	Contract Amount	Value ($)
Receive Fixed Rate — 2.32% – Pay Floating — 3-Month LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[2] (Cost $203,883)	6,000,000	**107,549**

Cash Equivalents 4.7%

	Shares	Value ($)
Central Cash Management Fund, 0.09% (e) (Cost $3,855,326)	3,855,326	**3,855,326**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $90,784,725)†	113.7	**93,952,498**
Other Assets and Liabilities, Net	(13.7)	**(11,319,734)**
Net Assets	100.0	**82,632,764**

* These securities are shown at their current rate as of June 30, 2015.

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

† The cost for federal income tax purposes was $90,808,279. At June 30, 2015, net unrealized appreciation for all securities based on tax cost was $3,144,219. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $4,364,939 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,220,720.

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

(a) When-issued or delayed delivery securities included.

(b) At June 30, 2015, this security has been pledged, in whole or in part, as collateral for open over-the-counter derivatives.

(c) At June 30, 2015, this security has been pledged, in whole or in part, to cover initial margin requirements for open centrally cleared swap contracts.

(d) At June 30, 2015, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

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

Interest Only: Interest Only (IO) bonds represent the "interest only" portion of payments on a pool of underlying mortgages or mortgage-backed securities. IO securities are subject to prepayment risk of the pool of underlying mortgages.

IOettes: These securities represent the right to receive interest payments on an underlying pool of mortgages with similar features as those associated with IO securities. Unlike IO's, a nominal amount of principal is assigned to an IOette which is small in relation to the interest flow that constitutes almost all of the IOette cash flow. The effective yield of this security is lower than the stated interest rate.

LIBOR: London Interbank Offered Rate; 3-Month LIBOR rate at June 30, 2015 is 0.28%.

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, 2015, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
10 Year U.S. Treasury Note	USD	9/21/2015	27	3,406,641	**(6,382)**

At June 30, 2015, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
Ultra Long U.S. Treasury Bond	USD	9/21/2015	106	16,330,625	**293,298**

Currency Abbreviation	
USD	United States Dollar

At June 30, 2015, open written options contracts were as follows:

Options on Interest Rate Swap Contracts	Swap Effective/ Expiration Dates	Contract Amount	Option Expiration Date	Premiums Received ($)	Value ($) (f)
Call Options					
Receive Fixed — 3.32% – Pay Floating — 3-Month LIBOR	2/3/2017 2/3/2027	3,000,000[2]	2/1/2017	216,990	(67,572)
Receive Fixed — 4.22% – Pay Floating — 3-Month LIBOR	4/22/2016 4/22/2026	2,600,000[1]	4/20/2016	92,690	(2,832)
Receive Fixed — 4.48% – Pay Floating — 3-Month LIBOR	5/9/2016 5/11/2026	2,400,000[1]	5/5/2016	26,940	(1,597)
Receive Fixed — 5.132% – Pay Floating — 3-Month LIBOR	3/17/2016 3/17/2026	2,400,000[1]	3/15/2016	17,340	(102)
Receive Fixed — 5.132% – Pay Floating — 3-Month LIBOR	3/17/2016 3/17/2026	2,400,000[2]	3/15/2016	28,320	(102)
Total Call Options				**382,280**	**(72,205)**
Put Options					
Pay Fixed — 1.132% – Receive Floating — 3-Month LIBOR	3/17/2016 3/17/2026	2,400,000[2]	3/15/2016	6,120	(1,232)
Pay Fixed — 1.132% – Receive Floating — 3-Month LIBOR	3/17/2016 3/17/2026	2,400,000[1]	3/15/2016	17,340	(1,232)
Pay Fixed — 2.48% – Receive Floating — 3-Month LIBOR	5/9/2016 5/11/2026	2,400,000[1]	5/5/2016	26,940	(46,383)
Pay Fixed — 2.615% – Receive Floating — 3-Month LIBOR	12/4/2015 12/4/2045	1,900,000[3]	12/2/2015	41,230	(34,116)
Pay Fixed — 2.64% – Receive Floating — 3-Month LIBOR	8/10/2015 8/10/2045	2,200,000[1]	8/6/2015	20,570	(11,769)
Pay Fixed — 2.675% – Receive Floating — 3-Month LIBOR	11/12/2015 11/12/2045	1,900,000[3]	11/9/2015	38,095	(38,488)
Pay Fixed — 2.88% – Receive Floating — 3-Month LIBOR	9/30/2015 9/30/2045	1,900,000[4]	9/28/2015	39,754	(55,560)
Pay Fixed — 3.32% – Receive Floating — 3-Month LIBOR	2/3/2017 2/3/2027	3,000,000[2]	2/1/2017	216,990	(178,464)
Total Put Options				**407,039**	**(367,244)**
Total				**789,319**	**(439,449)**

(f) Unrealized appreciation on written options on interest rate swap contracts at June 30, 2015 was $349,870.

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

At June 30, 2015, 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) ($)
9/16/2015 9/16/2017	11,000,000	Floating — 3-Month LIBOR	Fixed — 1.0%	(10,378)	6,978
9/16/2015 9/16/2017	18,500,000	Fixed — 1.0%	Floating — 3-Month LIBOR	17,597	(35,206)
6/17/2015 6/17/2020	8,830,000	Fixed — 1.5%	Floating — 3-Month LIBOR	105,072	23,359
9/16/2015 9/16/2020	7,100,000	Fixed — 1.75%	Floating — 3-Month LIBOR	44,321	(20,436)
9/16/2015 9/16/2020	3,384,000	Fixed — 2.25%	Floating — 3-Month LIBOR	(60,578)	(1,087)
9/16/2015 9/16/2025	7,900,000	Fixed — 2.5%	Floating — 3-Month LIBOR	8,813	10,569
9/16/2015 9/16/2045	2,200,000	Fixed — 3.0%	Floating — 3-Month LIBOR	(22,463)	30,416
9/16/2015 9/16/2022	16,000,000	Floating — 3-Month LIBOR	Fixed — 2.25%	39,199	(133,661)
6/17/2015 6/17/2045	8,578,000	Floating — 3-Month LIBOR	Fixed — 2.5%	(750,715)	(758,428)
9/16/2015 9/16/2045	800,000	Floating — 3-Month LIBOR	Fixed — 3.0%	8,169	(7,389)
Total net unrealized depreciation					**(884,885)**

Counterparties:

1 Nomura International PLC

2 BNP Paribas

3 Citigroup, Inc.

4 Morgan Stanley

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, 2015 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed-Income Investments (g)				
Mortgage-Backed Securities Pass-Throughs	$ —	$ 62,966,343	$ —	$ 62,966,343
Collateralized Mortgage Obligations	—	21,441,931	—	21,441,931
Government & Agency Obligations	—	4,495,000	—	4,495,000
Short-Term U.S. Treasury Obligations	—	1,045,000	—	1,045,000
Short-Term Investments	3,855,326	—	—	3,855,326
Derivatives (h)				
Purchased Options	—	148,898	—	148,898
Futures Contracts	293,298	—	—	293,298
Interest Rate Swap Contracts	—	71,322	—	71,322
Total	**$ 4,148,624**	**$ 90,168,494**	**$ —**	**$ 94,317,118**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (h)				
Futures Contracts	$ (6,382)	$ —	$ —	$ (6,382)
Written Options	—	(439,449)	—	(439,449)
Interest Rate Swap Contracts	—	(956,207)	—	(956,207)
Total	**$ (6,382)**	**$ (1,395,656)**	**$ —**	**$ (1,402,038)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2015.

(g) See Investment Portfolio for additional detailed categorizations.

(h) Derivatives include value of purchased options, unrealized appreciation (depreciation) on open futures contracts and interest rate swap contracts, and written options, at value.

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

Statement of Assets and Liabilities

as of June 30, 2015 (Unaudited)

Assets		
Investments		
Investments in non-affiliated securities, at value (cost $86,929,399)	$	90,097,172
Investment in Central Cash Management Fund (cost $3,855,326)		3,855,326
Total investments in securities, at value (cost $90,784,725)		93,952,498
Cash		10,000
Receivable for investments sold		4,343,212
Receivable for investments sold — when-issued/delayed delivery securities		9,591,970
Receivable for Fund shares sold		44,727
Interest receivable		340,922
Receivable for variation margin on futures contracts		6,231
Receivable for variation margin on centrally cleared swaps		6,614
Other assets		1,332
Total assets		108,297,506
Liabilities		
Payable for investments purchased — when-issued/delayed delivery securities		25,109,263
Payable for Fund shares redeemed		11,104
Options written, at value (premiums received $789,319)		439,449
Accrued management fee		26,570
Accrued Trustees' fees		931
Other accrued expenses and payables		77,425
Total liabilities		25,664,742
Net assets, at value	**$**	**82,632,764**
Net Assets Consist of		
Undistributed net investment income		992,567
Unrealized appreciation (depreciation) on:		
Investments		3,167,773
Swap contracts		(884,885)
Futures		286,916
Written options		349,870
Accumulated net realized gain (loss)		(1,398,492)
Paid-in capital		80,119,015
Net assets, at value	**$**	**82,632,764**
Class A		
Net Asset Value, offering and redemption price per share ($79,901,636 ÷ 6,990,233 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.43**
Class B		
Net Asset Value, offering and redemption price per share ($2,731,128 ÷ 238,857 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.43**

Statement of Operations

for the six months ended June 30, 2015 (Unaudited)

Investment Income		
Income:		
Interest	$	1,323,210
Income distributions — Central Cash Management Fund		1,742
Total income		1,324,952
Expenses:		
Management fee		193,045
Administration fee		42,899
Services to shareholders		691
Record keeping fees (Class B)		1,453
Distribution service fees (Class B)		3,477
Custodian fee		16,893
Professional fees		40,755
Reports to shareholders		15,570
Trustees' fees and expenses		2,806
Other		6,644
Total expenses before expense reductions		324,233
Expense reductions		(14,659)
Total expenses after expense reductions		309,574
Net investment income		**1,015,378**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		195,340
Swap contracts		(838,194)
Futures		34,968
Written options		98,020
		(509,866)
Change in net unrealized appreciation (depreciation) on:		
Investments		(980,479)
Swap contracts		(875,857)
Futures		276,851
Written options		725,058
		(854,427)
Net gain (loss)		**(1,364,293)**
Net increase (decrease) in net assets resulting from operations	**$**	**(348,915)**

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, 2015 (Unaudited)	Year Ended December 31, 2014
Operations:		
Net investment income	$ 1,015,378	$ 2,385,165
Net realized gain (loss)	(509,866)	(778,379)
Change in net unrealized appreciation (depreciation)	(854,427)	3,438,057
Net increase (decrease) in net assets resulting from operations	(348,915)	5,044,843
Distributions to shareholders from:		
Net investment income:		
Class A	(2,287,159)	(2,179,180)
Class B	(68,234)	(66,035)
Total distributions	(2,355,393)	(2,245,215)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,899,823	11,625,548
Reinvestment of distributions	2,287,159	2,179,180
Payments for shares redeemed	(9,341,460)	(25,367,687)
Net increase (decrease) in net assets from Class A share transactions	(4,154,478)	(11,562,959)
Class B		
Proceeds from shares sold	96,084	277,916
Reinvestment of distributions	68,234	66,035
Payments for shares redeemed	(368,998)	(1,055,485)
Net increase (decrease) in net assets from Class B share transactions	(204,680)	(711,534)
Increase (decrease) in net assets	(7,063,466)	(9,474,865)
Net assets at beginning of period	89,696,230	99,171,095
Net assets at end of period (including undistributed net investment income of $992,567 and $2,332,582, respectively)	**$ 82,632,764**	**$ 89,696,230**

Other Information		
Class A		
Shares outstanding at beginning of period	7,344,193	8,328,640
Shares sold	247,551	994,555
Shares issued to shareholders in reinvestment of distributions	199,404	189,659
Shares redeemed	(800,915)	(2,168,661)
Net increase (decrease) in Class A shares	(353,960)	(984,447)
Shares outstanding at end of period	**6,990,233**	**7,344,193**
Class B		
Shares outstanding at beginning of period	256,223	317,145
Shares sold	8,204	23,866
Shares issued to shareholders in reinvestment of distributions	5,944	5,742
Shares redeemed	(31,514)	(90,530)
Net increase (decrease) in Class B shares	(17,366)	(60,922)
Shares outstanding at end of period	**238,857**	**256,223**

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

Financial Highlights

Class A	Six Months Ended 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$11.80**	**$11.47**	**$12.69**	**$13.12**	**$12.98**	**$12.78**
Income (loss) from investment operations:						
Net investment income[a]	.14	.29	.24	.34	.48	.50
Net realized and unrealized gain (loss)	(.18)	.31	(.59)	.03	.45	.32
Total from investment operations	(.04)	.60	(.35)	.37	.93	.82
Less distributions from:						
Net investment income	(.33)	(.27)	(.37)	(.52)	(.57)	(.62)
Net realized gains	—	—	(.50)	(.28)	(.22)	—
Total distributions	(.33)	(.27)	(.87)	(.80)	(.79)	(.62)
Net asset value, end of period	**$11.43**	**$11.80**	**$11.47**	**$12.69**	**$13.12**	**$12.98**
Total Return (%)	(.37)[b]**	5.29[b]	(3.04)[b]	2.93[b]	7.46	6.61
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	80	87	96	121	146	157
Ratio of expenses before expense reductions (%)	.74*	.72	.71	.68	.67	.64
Ratio of expenses after expense reductions (%)	.71*	.70	.67	.66	.67	.64
Ratio of net investment income (%)	2.38*	2.49	2.05	2.65	3.68	3.86
Portfolio turnover rate (%)	133**	393	794	796	673	423

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 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$11.79**	**$11.46**	**$12.67**	**$13.10**	**$12.95**	**$12.75**
Income (loss) from investment operations:						
Net investment income[a]	.12	.25	.20	.29	.43	.46
Net realized and unrealized gain (loss)	(.19)	.31	(.59)	.03	.46	.31
Total from investment operations	(.07)	.56	(.39)	.32	.89	.77
Less distributions from:						
Net investment income	(.29)	(.23)	(.32)	(.47)	(.52)	(.57)
Net realized gains	—	—	(.50)	(.28)	(.22)	—
Total distributions	(.29)	(.23)	(.82)	(.75)	(.74)	(.57)
Net asset value, end of period	**$11.43**	**$11.79**	**$11.46**	**$12.67**	**$13.10**	**$12.95**
Total Return (%)	(.63)[b]**	4.95[b]	(3.25)[b]	2.48[b]	7.15	6.24
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	3	3	4	5	7	6
Ratio of expenses before expense reductions (%)	1.10*	1.06	1.06	1.03	1.01	.99
Ratio of expenses after expense reductions (%)	1.06*	1.03	.99	1.01	1.01	.99
Ratio of net investment income (%)	2.03*	2.16	1.71	2.29	3.34	3.51
Portfolio turnover rate (%)	133**	393	794	796	673	423

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 Government & Agency Securities VIP (the "Fund") is a diversified series of Deutsche 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. 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.

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. The Fund had no securities on loan during the period ended June 30, 2015.

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 or the counterparty 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, 2014, the Fund had approximately $806,000 of net tax basis capital loss carryforwards, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($723,000) and long-term losses ($83,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 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, paydown losses on mortgage backed securities, 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, 2015, 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, 2015, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $43,200,000 to $84,292,000.

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, 2015, 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, 2015 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, 2015, the investment in written option contracts had a total value generally indicative of a range from approximately $439,000 to $1,280,000, and purchased option contracts had a total value generally indicative of a range from approximately $149,000 to $263,000.

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, 2015, 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, 2015, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2015, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $3,407,000 to $21,425,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from $0 to approximately $16,331,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2015 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	Purchased Options	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a) (b)	$ 148,898	$ 71,322	$ 293,298	$ 513,518

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 and centrally cleared swap 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)	$ (439,449)	$ (956,207)	$ (6,382)	$ (1,402,038)

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 and centrally cleared swap 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, 2015 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)	$ 98,020	$ (838,194)	$ 34,968	$ (705,206)

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)	$ (53,364)	$ 725,058	$ (875,857)	$ 276,851	$ 72,688

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, 2015, 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 counterparty, 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	Non-Cash Collateral Received	Net Amount of Derivative Assets
BNP Paribas	$ 139,289	$ (139,289)	$ —	$ —
Nomura International PLC	9,609	(9,609)	—	—
	$ 148,898	**$ (148,898)**	**$ —**	**$ —**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Non-Cash Collateral Pledged (a)	Net Amount of Derivative Liabilities
BNP Paribas	$ 247,370	$ (139,289)	$ (108,081)	$ —
Citigroup, Inc.	72,604	—	(72,604)	—
Morgan Stanley	55,560	—	—	55,560
Nomura International PLC	63,915	(9,609)	(54,306)	—
	$ 439,449	**$ (148,898)**	**$ (234,991)**	**$ 55,560**

(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, 2015, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury securities) aggregated $124,410,054 and $134,494,162, respectively. Purchases and sales of U.S. Treasury securities aggregated $7,102,261 and $10,565,135, respectively.

For the six months ended June 30, 2015, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premiums
Outstanding, beginning of period	39,900,000	$ 887,339
Options exercised	(4,600,000)	(47,310)
Options expired	(4,400,000)	(50,710)
Outstanding, end of period	**30,900,000**	**$ 789,319**

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, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annualized rate (exclusive of any applicable waivers/reimbursements) of 0.45% of the Fund's average daily net assets.

For the period from January 1, 2015 through April 30, 2016, 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 total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.71%
Class B	1.06%

For the six months ended June 30, 2015, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 14,092
Class B	567
	$ 14,659

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, 2015, the Administration Fee was $42,899, of which $6,822 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, 2015, the amounts charged to the Fund by DSC were as follows:

	Total Aggregated	Unpaid at June 30, 2015
Class A	$ 143	$ 71
Class B	35	17
	$ 178	**$ 88**

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, 2015, the Distribution Service Fee aggregated $3,477, of which $563 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $8,568, of which $8,109 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 1940 Act, 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.

E. Ownership of the Fund

At June 30, 2015, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 44%, 30% and 17%. One participating insurance company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 93%.

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 the one-month 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, 2015.

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, 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, 2015 to June 30, 2015).

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, 2015

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$ 996.30	$ 993.70
Expenses Paid per $1,000*	$ 3.51	$ 5.24
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$1,021.27	$1,019.54
Expenses Paid per $1,000*	$ 3.56	$ 5.31

* 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	.71%	1.06%

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

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

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 Deutsche Government & Agency Securities VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

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

— In September 2014, 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 counsel to discuss contract review and other matters. In addition, the Independent Trustees were 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 ("DB"), 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 Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's 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 index(es) 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 a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 4th quartile, 3rd 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 five-year period and has underperformed its benchmark in the one- and three-year periods ended December 31, 2013. 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 2014. The Board recognized the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche 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 (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). 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, 2013, 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 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 that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. 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 information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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 Deutsche U.S. mutual funds ("Deutsche 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 DIMA 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.

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 Deutsche 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 DIMA's 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 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

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

Deutsche Asset
& Wealth Management

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

VS2GAS-3 (R-028384-4 8/15)

Deutsche Asset
& Wealth Management

June 30, 2015

Semiannual Report

Deutsche Variable Series II

Deutsche 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, credit, liquidity and market risks to varying degrees. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. The Fund may lend securities to approved institutions. See the prospectus for details.

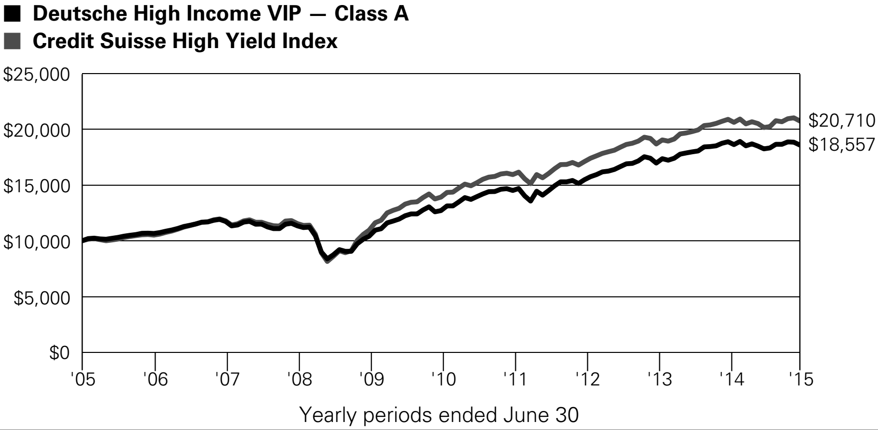
Performance Summary

June 30, 2015 (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, 2015 are 0.75% and 1.13% 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	$10,185	$9,842	$12,010	$14,622	$18,557
	Average annual total return	1.85%	–1.58%	6.27%	7.89%	6.38%
Credit Suisse High Yield Index	Growth of $10,000	$10,290	$9,930	$12,122	$14,904	$20,710
	Average annual total return	2.90%	–0.70%	6.62%	8.31%	7.55%

Deutsche High Income VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,162	$9,792	$11,887	$14,417	$17,956
	Average annual total return	1.62%	–2.08%	5.93%	7.59%	6.03%
Credit Suisse High Yield Index	Growth of $10,000	$10,290	$9,930	$12,122	$14,904	$20,710
	Average annual total return	2.90%	–0.70%	6.62%	8.31%	7.55%

The growth of $10,000 is cumulative.

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

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**6/30/15**	**12/31/14**
Corporate Bonds	92%	87%
Cash Equivalents	2%	7%
Convertible Bond	2%	2%
Government & Agency Obligations	1%	1%
Preferred Security	1%	1%
Loan Participations and Assignments	1%	1%
Preferred Stock	1%	1%
Common Stocks	0%	0%
Warrant	0%	0%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Government & Agency Obligations, Cash Equivalents and Securities Lending Collateral)	**6/30/15**	**12/31/14**
Consumer Discretionary	22%	20%
Telecommunication Services	18%	20%
Energy	14%	10%
Industrials	12%	12%
Materials	9%	9%
Health Care	9%	8%
Information Technology	5%	8%
Financials	4%	5%
Utilities	4%	3%
Consumer Staples	3%	5%
	100%	100%

Quality (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**6/30/15**	**12/31/14**
AAA	2%	1%
BBB	3%	2%
BB	46%	43%
B	39%	41%
CCC	9%	12%
Not Rated	1%	1%
	100%	100%

The quality ratings represent the higher of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's and S&P represent their opinions as to the quality of the securities they rate. Credit quality measures a bond issuer's ability to repay interest and principal in a timely manner. Ratings are relative and subjective and are not absolute standards of quality. Credit quality does not remove market risk and is subject to change.

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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 91.5%		
Consumer Discretionary 19.9%		
1011778 BC ULC, 144A, 4.625%, 1/15/2022	125,000	123,125
Ally Financial, Inc., 4.125%, 3/30/2020 (b)	285,000	284,464
AMC Entertainment, Inc., 5.875%, 2/15/2022 (b)	220,000	223,300
AMC Networks, Inc., 7.75%, 7/15/2021	80,000	86,400
AmeriGas Finance LLC:		
6.75%, 5/20/2020	460,000	484,150
7.0%, 5/20/2022	350,000	371,000
Apex Tool Group LLC, 144A, 7.0%, 2/1/2021 (b)	210,000	186,900
APX Group, Inc., 6.375%, 12/1/2019	205,000	198,850
Asbury Automotive Group, Inc., 6.0%, 12/15/2024	495,000	514,800
Ashtead Capital, Inc., 144A, 6.5%, 7/15/2022	330,000	349,800
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	350,000	325,500
Avis Budget Car Rental LLC:		
144A, 5.25%, 3/15/2025 (b)	480,000	450,600
5.5%, 4/1/2023 (b)	660,000	651,750
Block Communications, Inc., 144A, 7.25%, 2/1/2020	375,000	382,500
Boyd Gaming Corp., 6.875%, 5/15/2023	140,000	143,500
Cablevision Systems Corp., 5.875%, 9/15/2022 (b)	110,000	106,700
CCO Holdings LLC:		
144A, 5.125%, 5/1/2023	385,000	374,412
144A, 5.375%, 5/1/2025	285,000	277,519
144A, 5.875%, 5/1/2027	480,000	468,600
7.0%, 1/15/2019	51,000	52,976
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	602,000	546,691
144A, 6.375%, 9/15/2020	940,000	933,655
Clear Channel Worldwide Holdings, Inc.:		
Series A, 6.5%, 11/15/2022	250,000	256,250
Series B, 6.5%, 11/15/2022	365,000	380,056
Series A, 7.625%, 3/15/2020	110,000	113,575
Series B, 7.625%, 3/15/2020	1,115,000	1,162,387
Cogeco Cable, Inc., 144A, 4.875%, 5/1/2020	20,000	20,300
CSC Holdings LLC, 5.25%, 6/1/2024 (b)	935,000	897,600
Dana Holding Corp., 5.5%, 12/15/2024	180,000	176,850
DISH DBS Corp.:		
4.25%, 4/1/2018	270,000	274,725
5.0%, 3/15/2023	1,225,000	1,133,125
6.75%, 6/1/2021	50,000	52,125
7.875%, 9/1/2019	270,000	299,430
Family Tree Escrow LLC:		
144A, 5.25%, 3/1/2020	420,000	439,425
144A, 5.75%, 3/1/2023	350,000	365,750
Fiat Chrysler Automobiles NV, 144A, 4.5%, 4/15/2020	345,000	343,275
Global Partners LP, 144A, 7.0%, 6/15/2023	235,000	230,888
Group 1 Automotive, Inc., 5.0%, 6/1/2022 (b)	455,000	452,725
HD Supply, Inc.:		
144A, 5.25%, 12/15/2021	275,000	278,781
7.5%, 7/15/2020 (b)	95,000	100,463
11.5%, 7/15/2020	345,000	398,475
Hertz Corp., 6.75%, 4/15/2019	305,000	314,730
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	140,000	147,000
iHeartCommunications, Inc.:		
9.0%, 12/15/2019 (b)	530,000	505,090
11.25%, 3/1/2021	280,000	271,950
Jo-Ann Stores Holdings, Inc., 144A, 9.75%, 10/15/2019	160,000	143,200
Live Nation Entertainment, Inc.:		
144A, 5.375%, 6/15/2022	50,000	50,000
144A, 7.0%, 9/1/2020	345,000	366,562
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	370,000	368,612
Mediacom Broadband LLC:		
5.5%, 4/15/2021	50,000	48,750
6.375%, 4/1/2023	425,000	425,000
Mediacom LLC, 7.25%, 2/15/2022	110,000	115,225
MGM Resorts International:		
6.0%, 3/15/2023 (b)	280,000	283,500
6.75%, 10/1/2020 (b)	526,000	557,560
8.625%, 2/1/2019	510,000	576,300
Nielsen Finance LLC, 144A, 5.0%, 4/15/2022	155,000	151,900
Numericable-SFR:		
144A, 4.875%, 5/15/2019	520,000	514,800
144A, 6.0%, 5/15/2022	775,000	763,859
Penske Automotive Group, Inc., 5.375%, 12/1/2024	660,000	668,250
Petco Animal Supplies, Inc., 144A, 9.25%, 12/1/2018	315,000	329,175
Pinnacle Entertainment, Inc., 6.375%, 8/1/2021	160,000	169,800
Quebecor Media, Inc., 5.75%, 1/15/2023	205,000	204,488
Sabre GLBL, Inc., 144A, 5.375%, 4/15/2023	25,000	24,625
Schaeffler Finance BV, 144A, 4.75%, 5/15/2023	365,000	355,875
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021	125,000	126,250
Serta Simmons Holdings LLC, 144A, 8.125%, 10/1/2020 (b)	230,000	242,650
Sirius XM Radio, Inc., 144A, 5.875%, 10/1/2020	195,000	199,875
Spectrum Brands, Inc., 144A, 5.75%, 7/15/2025	120,000	121,800
Springs Industries, Inc., 6.25%, 6/1/2021	295,000	288,363
Starz LLC, 5.0%, 9/15/2019	175,000	177,188
Suburban Propane Partners LP, 5.75%, 3/1/2025	145,000	144,638
TRI Pointe Holdings, Inc., 4.375%, 6/15/2019	145,000	142,100
UCI International, Inc., 8.625%, 2/15/2019	310,000	275,900

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

	Principal Amount ($)(a)	Value ($)
Unitymedia Hessen GmbH & Co., KG, 144A, 5.5%, 1/15/2023	945,000	963,309
Viking Cruises Ltd.:		
144A, 6.25%, 5/15/2025	240,000	238,200
144A, 8.5%, 10/15/2022	205,000	227,550
		25,417,471

Consumer Staples 3.1%

	Principal Amount ($)(a)	Value ($)
Chiquita Brands International, Inc., 7.875%, 2/1/2021	90,000	96,975
Cott Beverages, Inc.:		
5.375%, 7/1/2022	445,000	431,650
144A, 6.75%, 1/1/2020	180,000	186,750
FAGE Dairy Industry SA, 144A, 9.875%, 2/1/2020 (b)	810,000	844,425
JBS Investments GmbH:		
144A, 7.25%, 4/3/2024 (b)	525,000	543,375
144A, 7.75%, 10/28/2020	405,000	440,437
JBS U.S.A. LLC:		
144A, 5.75%, 6/15/2025	190,000	187,805
144A, 7.25%, 6/1/2021	485,000	511,069
144A, 8.25%, 2/1/2020	160,000	169,600
Pilgrim's Pride Corp., 144A, 5.75%, 3/15/2025	200,000	202,000
Post Holdings, Inc., 144A, 6.75%, 12/1/2021	110,000	110,000
Roundy's Supermarkets, Inc., 144A, 10.25%, 12/15/2020	55,000	46,750
Smithfield Foods, Inc., 6.625%, 8/15/2022	9,000	9,608
The WhiteWave Foods Co., 5.375%, 10/1/2022	185,000	195,175
		3,975,619

Energy 13.3%

	Principal Amount ($)(a)	Value ($)
Antero Resources Corp.:		
5.125%, 12/1/2022	330,000	311,850
5.375%, 11/1/2021	250,000	240,000
144A, 5.625%, 6/1/2023	205,000	198,081
Baytex Energy Corp.:		
144A, 5.125%, 6/1/2021	70,000	65,625
144A, 5.625%, 6/1/2024	95,000	88,113
Berry Petroleum Co., LLC:		
6.375%, 9/15/2022	205,000	159,900
6.75%, 11/1/2020	680,000	537,200
Blue Racer Midstream LLC, 144A, 6.125%, 11/15/2022	115,000	118,450
California Resources Corp.:		
5.0%, 1/15/2020	140,000	123,200
5.5%, 9/15/2021 (b)	323,000	281,075
6.0%, 11/15/2024 (b)	135,000	116,100
Carrizo Oil & Gas, Inc., 6.25%, 4/15/2023	235,000	235,587
Chaparral Energy, Inc., 7.625%, 11/15/2022	465,000	334,800
Chesapeake Energy Corp.:		
5.75%, 3/15/2023 (b)	650,000	588,250
6.125%, 2/15/2021	50,000	47,000
6.625%, 8/15/2020	240,000	234,000
Concho Resources, Inc., 5.5%, 4/1/2023	530,000	530,000
Crestwood Midstream Partners LP:		
6.125%, 3/1/2022	165,000	168,300
144A, 6.25%, 4/1/2023	95,000	98,800
Endeavor Energy Resources LP:		
144A, 7.0%, 8/15/2021	545,000	542,275
144A, 8.125%, 9/15/2023	285,000	293,906
EP Energy LLC, 144A, 6.375%, 6/15/2023 (b)	210,000	210,525
EV Energy Partners LP, 8.0%, 4/15/2019	955,000	888,150
Gulfport Energy Corp., 144A, 6.625%, 5/1/2023	95,000	96,188
Halcon Resources Corp.:		
144A, 8.625%, 2/1/2020	435,000	429,562
8.875%, 5/15/2021	543,000	357,022
9.75%, 7/15/2020	145,000	97,513
Hilcorp Energy I LP:		
144A, 5.0%, 12/1/2024	195,000	182,852
144A, 5.75%, 10/1/2025	335,000	321,600
Holly Energy Partners LP, 6.5%, 3/1/2020	105,000	104,738
Laredo Petroleum, Inc., 6.25%, 3/15/2023	295,000	300,162
Linn Energy LLC, 6.25%, 11/1/2019	140,000	109,550
MEG Energy Corp.:		
144A, 6.5%, 3/15/2021	235,000	226,187
144A, 7.0%, 3/31/2024	610,000	584,837
Memorial Resource Development Corp., 5.875%, 7/1/2022	195,000	188,312
Murphy Oil U.S.A., Inc., 6.0%, 8/15/2023	290,000	300,875
Newfield Exploration Co., 5.375%, 1/1/2026	155,000	153,450
Northern Oil & Gas, Inc., 8.0%, 6/1/2020	595,000	541,450
Oasis Petroleum, Inc.:		
6.875%, 3/15/2022	610,000	619,150
6.875%, 1/15/2023	210,000	207,375
Parsley Energy LLC, 144A, 7.5%, 2/15/2022	35,000	35,514
Range Resources Corp., 144A, 4.875%, 5/15/2025	190,000	184,566
Regency Energy Partners LP:		
5.0%, 10/1/2022	125,000	126,975
5.875%, 3/1/2022	25,000	26,613
Rice Energy, Inc., 144A, 7.25%, 5/1/2023	50,000	51,250
RSP Permian, Inc., 144A, 6.625%, 10/1/2022	460,000	470,350
Sabine Pass Liquefaction LLC:		
5.625%, 2/1/2021	690,000	703,800
5.625%, 4/15/2023	155,000	154,467
144A, 5.625%, 3/1/2025	255,000	252,450
5.75%, 5/15/2024	675,000	672,469
Seven Generations Energy Ltd., 144A, 6.75%, 5/1/2023	70,000	69,825
Sunoco LP, 144A, 6.375%, 4/1/2023	140,000	145,600
Talos Production LLC, 144A, 9.75%, 2/15/2018	410,000	356,700
Targa Resources Partners LP, 144A, 4.125%, 11/15/2019	70,000	69,300
TerraForm Power Operating LLC, 144A, 5.875%, 2/1/2023	340,000	345,100
Triangle U.S.A. Petroleum Corp., 144A, 6.75%, 7/15/2022	145,000	112,375
Welltec AS, 144A, 8.0%, 2/1/2019	400,000	382,000
Whiting Petroleum Corp.:		
5.75%, 3/15/2021	350,000	344,400
144A, 6.25%, 4/1/2023	910,000	903,175
Williams Partners LP, 6.125%, 7/15/2022	325,000	345,312
		16,984,251

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

		Principal Amount ($)(a)	Value ($)
Financials 3.6%			
CNO Financial Group, Inc.:			
4.5%, 5/30/2020		70,000	71,050
5.25%, 5/30/2025		140,000	142,268
Credit Agricole SA, 144A, 7.875%, 1/29/2049		330,000	339,246
Denali Borrower LLC, 144A, 5.625%, 10/15/2020		285,000	299,606
E*TRADE Financial Corp.:			
4.625%, 9/15/2023		200,000	196,500
5.375%, 11/15/2022		170,000	174,250
Equinix, Inc.:			
(REIT), 5.375%, 1/1/2022		225,000	225,563
(REIT), 5.375%, 4/1/2023		725,000	725,000
(REIT), 5.75%, 1/1/2025		170,000	168,300
Hellas Telecommunications Finance, 144A, 8.011%**, 7/15/2015*	EUR	322,107	0
International Lease Finance Corp.:			
3.875%, 4/15/2018		385,000	386,925
6.25%, 5/15/2019		320,000	346,000
MPT Operating Partnership LP:			
(REIT), 6.375%, 2/15/2022		290,000	309,213
(REIT), 6.875%, 5/1/2021		295,000	311,594
Popular, Inc., 7.0%, 7/1/2019		145,000	145,000
Seminole Tribe of Florida, Inc., 144A, 7.804%, 10/1/2020		305,000	325,587
Societe Generale SA, 144A, 7.875%, 12/29/2049		460,000	462,300
			4,628,402
Health Care 8.8%			
Alere, Inc., 144A, 6.375%, 7/1/2023		185,000	188,238
Community Health Systems, Inc.:			
5.125%, 8/15/2018		1,155,000	1,183,875
5.125%, 8/1/2021		55,000	56,031
6.875%, 2/1/2022 (b)		220,000	232,100
7.125%, 7/15/2020		1,735,000	1,838,232
Concordia Healthcare Corp., 144A, 7.0%, 4/15/2023		95,000	95,000
Endo Finance LLC:			
144A, 5.375%, 1/15/2023		215,000	212,313
144A, 5.75%, 1/15/2022 (b)		220,000	222,750
144A, 6.0%, 7/15/2023 (c)		195,000	199,388
144A, 6.0%, 2/1/2025		150,000	152,438
Fresenius Medical Care U.S. Finance II, Inc., 144A, 5.625%, 7/31/2019 (b)		220,000	238,150
Fresenius U.S. Finance II, Inc., 144A, 9.0%, 7/15/2015		420,000	420,672
HCA, Inc.:			
6.5%, 2/15/2020		890,000	994,575
7.5%, 2/15/2022		305,000	350,369
Hologic, Inc., 144A, 5.25%, 7/15/2022 (c)		90,000	91,913
IMS Health, Inc., 144A, 6.0%, 11/1/2020		250,000	257,500
LifePoint Health, Inc., 5.5%, 12/1/2021		275,000	283,937
Mallinckrodt International Finance SA, 144A, 4.875%, 4/15/2020		160,000	162,808
Par Pharmaceutical Companies, Inc., 7.375%, 10/15/2020		345,000	368,287
Tenet Healthcare Corp.:			
144A, 3.786%**, 6/15/2020		180,000	181,575
144A, 6.75%, 6/15/2023		380,000	387,600
Valeant Pharmaceuticals International, Inc.:			
144A, 5.375%, 3/15/2020		365,000	376,862
144A, 5.875%, 5/15/2023		335,000	343,375
144A, 6.125%, 4/15/2025		955,000	982,456
144A, 6.375%, 10/15/2020		245,000	258,016
144A, 7.5%, 7/15/2021		1,050,000	1,130,062
			11,208,522
Industrials 11.3%			
ADT Corp.:			
3.5%, 7/15/2022 (b)		150,000	135,750
5.25%, 3/15/2020		300,000	314,250
6.25%, 10/15/2021 (b)		145,000	152,250
Aerojet Rocketdyne Holdings, Inc., 7.125%, 3/15/2021		535,000	569,775
Aguila 3 SA, 144A, 7.875%, 1/31/2018		480,000	475,200
Artesyn Embedded Technologies, Inc., 144A, 9.75%, 10/15/2020		245,000	243,162
AWAS Aviation Capital Ltd., 144A, 7.0%, 10/17/2016		292,520	296,176
Belden, Inc., 144A, 5.5%, 9/1/2022		355,000	352,337
Bombardier, Inc.:			
144A, 4.75%, 4/15/2019		160,000	155,600
144A, 5.5%, 9/15/2018		100,000	99,000
144A, 5.75%, 3/15/2022 (b)		225,000	200,250
144A, 6.0%, 10/15/2022		265,000	235,187
144A, 7.5%, 3/15/2025		105,000	95,288
Casella Waste Systems, Inc., 7.75%, 2/15/2019		220,000	222,200
Covanta Holding Corp., 5.875%, 3/1/2024		220,000	219,450
CTP Transportation Products LLC, 144A, 8.25%, 12/15/2019		275,000	284,625
D.R. Horton, Inc., 4.0%, 2/15/2020		100,000	99,470
DigitalGlobe, Inc., 144A, 5.25%, 2/1/2021		160,000	156,600
EnerSys, 144A, 5.0%, 4/30/2023		45,000	44,508
Florida East Coast Holdings Corp., 144A, 6.75%, 5/1/2019		155,000	155,388
FTI Consulting, Inc., 6.0%, 11/15/2022		205,000	213,713
Garda World Security Corp., 144A, 7.25%, 11/15/2021		290,000	278,400
Gates Global LLC, 144A, 6.0%, 7/15/2022		190,000	171,950
Huntington Ingalls Industries, Inc., 144A, 5.0%, 12/15/2021		395,000	401,912
Kenan Advantage Group, Inc., 144A, 8.375%, 12/15/2018		575,000	598,719
Masonite International Corp., 144A, 5.625%, 3/15/2023		220,000	223,575
Meritor, Inc.:			
6.25%, 2/15/2024		215,000	212,313
6.75%, 6/15/2021		300,000	306,750
Moog, Inc., 144A, 5.25%, 12/1/2022		165,000	167,888
Navios Maritime Holdings, Inc., 144A, 7.375%, 1/15/2022		830,000	718,987
Nortek, Inc., 8.5%, 4/15/2021		440,000	469,700
Oshkosh Corp.:			
5.375%, 3/1/2022		165,000	168,713
5.375%, 3/1/2025		25,000	25,000

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

	Principal Amount ($)(a)	Value ($)
Ply Gem Industries, Inc., 6.5%, 2/1/2022 (b)	415,000	407,012
SBA Communications Corp., 5.625%, 10/1/2019	200,000	208,000
Spirit AeroSystems, Inc., 5.25%, 3/15/2022	285,000	294,262
Titan International, Inc., 6.875%, 10/1/2020 (b)	340,000	312,375
TransDigm, Inc.:		
6.0%, 7/15/2022	260,000	256,750
6.5%, 7/15/2024	155,000	153,063
7.5%, 7/15/2021	1,115,000	1,198,625
Triumph Group, Inc., 5.25%, 6/1/2022	130,000	128,375
United Rentals North America, Inc.:		
4.625%, 7/15/2023	160,000	156,896
6.125%, 6/15/2023	25,000	25,531
7.375%, 5/15/2020	595,000	634,859
7.625%, 4/15/2022	595,000	644,087
USG Corp., 144A, 5.5%, 3/1/2025	10,000	9,963
Wise Metals Group LLC, 144A, 8.75%, 12/15/2018	250,000	264,062
XPO Logistics, Inc.:		
144A, 6.5%, 6/15/2022	230,000	225,113
144A, 7.875%, 9/1/2019	240,000	256,464
ZF North America Capital, Inc.:		
144A, 4.5%, 4/29/2022	510,000	499,570
144A, 4.75%, 4/29/2025	205,000	198,467
		14,337,560

Information Technology 4.8%

	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	843,237
Alliance Data Systems Corp., 144A, 5.25%, 12/1/2017	255,000	263,287
Audatex North America, Inc.:		
144A, 6.0%, 6/15/2021	315,000	323,662
144A, 6.125%, 11/1/2023	115,000	118,163
BMC Software Finance, Inc., 144A, 8.125%, 7/15/2021	215,000	174,150
Boxer Parent Co., Inc., 144A, 9.0%, 10/15/2019 (b)	320,000	227,200
Cardtronics, Inc., 144A, 5.125%, 8/1/2022	145,000	141,738
CDW LLC:		
5.5%, 12/1/2024	330,000	326,700
6.0%, 8/15/2022	370,000	382,025
EarthLink Holdings Corp., 7.375%, 6/1/2020	245,000	254,800
Entegris, Inc., 144A, 6.0%, 4/1/2022	160,000	164,400
First Data Corp.:		
144A, 7.375%, 6/15/2019	96,000	99,792
144A, 8.75%, 1/15/2022	910,000	967,444
Freescale Semiconductor, Inc., 144A, 6.0%, 1/15/2022	275,000	291,500
Infor U.S., Inc., 144A, 6.5%, 5/15/2022	215,000	218,762
Italics Merger Sub, Inc., 144A, 7.125%, 7/15/2023	95,000	93,813
Micron Technology, Inc., 144A, 5.25%, 8/1/2023	250,000	239,687
NCR Corp.:		
5.875%, 12/15/2021	55,000	56,650
6.375%, 12/15/2023	135,000	143,100
NXP BV, 144A, 3.75%, 6/1/2018	250,000	251,875
Open Text Corp., 144A, 5.625%, 1/15/2023	200,000	198,000
Project Homestake Merger Corp., 144A, 8.875%, 3/1/2023	155,000	150,350
Sanmina Corp., 144A, 4.375%, 6/1/2019	25,000	24,938
		6,065,786

Materials 6.1%

	Principal Amount ($)(a)	Value ($)
ArcelorMittal, 5.125%, 6/1/2020	60,000	60,825
Ardagh Packaging Finance PLC, 144A, 3.286%**, 12/15/2019	310,000	301,475
AVINTIV Specialty Materials, Inc., 7.75%, 2/1/2019	163,000	167,890
Ball Corp., 5.25%, 7/1/2025	225,000	222,469
Berry Plastics Corp., 5.5%, 5/15/2022	435,000	436,631
Cascades, Inc., 144A, 5.5%, 7/15/2022	145,000	140,287
Chemours Co.:		
144A, 6.625%, 5/15/2023 (b)	435,000	421,406
144A, 7.0%, 5/15/2025 (b)	80,000	77,600
Clearwater Paper Corp., 144A, 5.375%, 2/1/2025	195,000	191,100
Coveris Holding Corp., 144A, 10.0%, 6/1/2018	230,000	241,500
Coveris Holdings SA, 144A, 7.875%, 11/1/2019	330,000	328,350
Crown Americas LLC, 6.25%, 2/1/2021	50,000	52,125
Evolution Escrow Issuer LLC, 144A, 7.5%, 3/15/2022	245,000	232,137
First Quantum Minerals Ltd.:		
144A, 6.75%, 2/15/2020	36,000	34,830
144A, 7.0%, 2/15/2021	475,000	454,219
Hexion, Inc.:		
6.625%, 4/15/2020	600,000	550,500
8.875%, 2/1/2018	270,000	243,675
Perstorp Holding AB, 144A, 8.75%, 5/15/2017	455,000	473,200
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021	250,000	254,375
Platform Specialty Products Corp., 144A, 6.5%, 2/1/2022	230,000	237,475
Reynolds Group Issuer, Inc.:		
5.75%, 10/15/2020	1,390,000	1,424,750
6.875%, 2/15/2021	540,000	562,950
Sealed Air Corp.:		
144A, 4.875%, 12/1/2022	115,000	113,275
144A, 5.125%, 12/1/2024	55,000	54,244
Signode Industrial Group Lux SA, 144A, 6.375%, 5/1/2022	210,000	203,700
Tronox Finance LLC, 6.375%, 8/15/2020	200,000	185,500
WR Grace & Co-Conn:		
144A, 5.125%, 10/1/2021	90,000	90,675
144A, 5.625%, 10/1/2024	45,000	45,563
		7,802,726

Telecommunication Services 17.1%

	Principal Amount ($)(a)	Value ($)
Altice Financing SA:		
144A, 6.5%, 1/15/2022	200,000	200,000
144A, 7.875%, 12/15/2019	235,000	247,338

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

	Principal Amount ($)(a)	Value ($)
Altice Finco SA, 144A, 9.875%, 12/15/2020	235,000	258,500
B Communications Ltd., 144A, 7.375%, 2/15/2021	270,000	289,575
CenturyLink, Inc.:		
Series V, 5.625%, 4/1/2020	105,000	105,131
Series W, 6.75%, 12/1/2023 (b)	280,000	280,875
CommScope, Inc.:		
144A, 4.375%, 6/15/2020	115,000	116,150
144A, 5.0%, 6/15/2021	260,000	253,500
CyrusOne LP, 144A,		
6.375%, 11/15/2022 (c)	205,000	212,175
144A, 6.375%, 11/15/2022	105,000	108,675
Digicel Group Ltd.:		
144A, 7.125%, 4/1/2022	265,000	251,671
144A, 8.25%, 9/30/2020	1,560,000	1,563,900
Digicel Ltd.:		
144A, 6.75%, 3/1/2023	390,000	382,317
144A, 7.0%, 2/15/2020	200,000	207,000
Frontier Communications Corp.:		
6.25%, 9/15/2021	140,000	127,400
6.875%, 1/15/2025 (b)	660,000	551,925
7.125%, 1/15/2023	1,370,000	1,215,875
8.5%, 4/15/2020	100,000	104,550
Hughes Satellite Systems Corp.:		
6.5%, 6/15/2019	400,000	434,000
7.625%, 6/15/2021	230,000	253,046
Intelsat Jackson Holdings SA:		
5.5%, 8/1/2023	465,000	411,757
7.25%, 10/15/2020	810,000	800,887
7.5%, 4/1/2021	1,270,000	1,255,712
Level 3 Financing, Inc.:		
5.375%, 8/15/2022 (b)	675,000	681,750
144A, 5.375%, 5/1/2025 (b)	200,000	192,750
6.125%, 1/15/2021	165,000	173,036
8.625%, 7/15/2020	510,000	545,037
Millicom International Cellular SA, 144A, 4.75%, 5/22/2020	370,000	355,766
Plantronics, Inc., 144A, 5.5%, 5/31/2023	95,000	96,188
Sprint Communications, Inc.:		
144A, 7.0%, 3/1/2020 (b)	245,000	266,487
144A, 9.0%, 11/15/2018	845,000	954,225
Sprint Corp., 7.125%, 6/15/2024	1,345,000	1,247,622
T-Mobile U.S.A., Inc.:		
6.125%, 1/15/2022 (b)	110,000	113,575
6.375%, 3/1/2025	720,000	736,200
6.625%, 11/15/2020	705,000	733,200
UPCB Finance IV Ltd., 144A, 5.375%, 1/15/2025	955,000	911,547
UPCB Finance V Ltd., 144A, 7.25%, 11/15/2021	886,500	957,420
UPCB Finance VI Ltd., 144A, 6.875%, 1/15/2022	270,000	287,550
Virgin Media Secured Finance PLC, 144A, 5.25%, 1/15/2026	200,000	193,250
Wind Acquisition Finance SA, 144A, 6.5%, 4/30/2020	195,000	203,775
Windstream Services LLC:		
6.375%, 8/1/2023	265,000	215,644
7.75%, 10/15/2020 (b)	1,880,000	1,840,050
7.75%, 10/1/2021	675,000	617,625
7.875%, 11/1/2017	495,000	525,937

	Principal Amount ($)(a)	Value ($)
Zayo Group LLC:		
144A, 6.0%, 4/1/2023 (b)	190,000	187,663
144A, 6.375%, 5/15/2025	240,000	232,800
		21,901,056
Utilities 3.5%		
AES Corp.:		
3.283%**, 6/1/2019	175,000	175,000
8.0%, 6/1/2020	525,000	606,375
Calpine Corp.:		
5.375%, 1/15/2023	240,000	235,800
5.75%, 1/15/2025	240,000	233,400
Dynegy, Inc.:		
144A, 7.375%, 11/1/2022	235,000	246,163
144A, 7.625%, 11/1/2024	425,000	449,437
Energy Future Holdings Corp., Series Q, 6.5%, 11/15/2024*	550,000	577,500
NGL Energy Partners LP, 5.125%, 7/15/2019	190,000	189,525
NRG Energy, Inc.:		
6.25%, 5/1/2024	1,270,000	1,260,475
7.875%, 5/15/2021	215,000	228,975
Talen Energy Supply LLC, 144A, 5.125%, 7/15/2019	195,000	191,100
		4,393,750
Total Corporate Bonds (Cost $118,244,543)		**116,715,143**

Government & Agency Obligation 1.6%

U.S. Treasury Obligation

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Note, 1.0%, 8/31/2016 (d) (Cost $2,062,147)	2,050,000	**2,064,735**

Loan Participations and Assignments 0.8%

Senior Loans**

	Principal Amount ($)(a)	Value ($)
Alliance Mortgage Cycle Loan, Term Loan A, 9.5%, 6/15/2010*	700,000	0
Level 3 Financing, Inc.:		
Term Loan B, 4.0%, 1/15/2020	310,000	310,485
Term Loan B2, 3.5%, 5/31/2022	365,000	362,985
Ply Gem Industries, Inc., Term Loan, 4.0%, 2/1/2021	306,125	304,595
Total Loan Participations and Assignments (Cost $1,675,623)		**978,065**

Convertible Bond 1.9%

Materials

	Principal Amount ($)(a)	Value ($)
GEO Specialty Chemicals, Inc., 144A, 7.5%, 10/30/2018 (Cost $1,267,500)	1,297,793	**2,371,717**

Preferred Security 0.8%

Materials

	Principal Amount ($)(a)	Value ($)
Hercules, Inc., 6.5%, 6/30/2029 (Cost $778,844)	1,135,000	**1,032,850**

Common Stocks 0.1%

Consumer Discretionary 0.0%

	Shares	Value ($)
Dawn Holdings, Inc.* (e)	15	**21,392**

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

	Shares	Value ($)
Industrials 0.0%		
Congoleum Corp.*	24,000	0
Quad Graphics, Inc.	224	4,146
		4,146
Materials 0.1%		
GEO Specialty Chemicals, Inc.*	144,027	101,049
GEO Specialty Chemicals, Inc. 144A*	2,206	1,548
		102,597
Total Common Stocks (Cost $345,503)		**128,135**

Preferred Stock 0.5%

Consumer Discretionary

	Shares	Value ($)
Ally Financial, Inc. Series G, 144A, 7.0% (Cost $547,374)	568	**576,786**

Warrants 0.0%

Materials

	Shares	Value ($)
Hercules Trust II, Expiration Date 3/31/2029* (Cost $244,286)	1,100	**6,474**

Securities Lending Collateral 10.4%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.16% (f) (g) (Cost $13,271,710)	13,271,710	**13,271,710**

Cash Equivalents 1.9%

	Shares	Value ($)
Central Cash Management Fund, 0.09% (f) (Cost $2,460,621)	2,460,621	**2,460,621**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $140,898,151)†	109.5	**139,606,236**
Other Assets and Liabilities, Net	(9.5)	**(12,118,571)**
Net Assets	100.0	**127,487,665**

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	334,642	577,500
Hellas Telecommunications Finance*	8.011%	7/15/2015	EUR	322,107	92,199	0
					1,126,841	**577,500**

* 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, 2015.

† The cost for federal income tax purposes was $140,835,937. At June 30, 2015, net unrealized depreciation for all securities based on tax cost was $1,229,701. This consisted of aggregate gross unrealized depreciation for all securities in which there was an excess of value over tax cost of $3,532,679 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $4,762,380.

(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, 2015 amounted to $12,780,279, which is 10.0% of net assets.

(c) When-issued security.

(d) At June 30, 2015, this security has been pledged, in whole or in part, as collateral for swap contracts.

(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 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	21,392	.02

(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.

REIT: Real Estate Investment Trust

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

At June 30, 2015, open credit default swap contracts sold were as follows:

Bilateral Swaps

Effective/ Expiration Dates	Notional Amount ($) (h)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (i)	Value ($)	Upfront Payments Paid ($)	Unrealized Appreciation/ (Depreciation) ($)
3/20/2015 6/20/2020	240,000[1]	5.0%	CCO Holdings LLC, 7.25%, 10/30/2017, BB–	23,519	22,939	580
9/22/2014 12/20/2019	630,000[2]	5.0%	Community Health Systems, Inc., 8.0%, 11/15/2019, B–	73,351	37,955	35,396
12/22/2014 3/20/2020	345,000[3]	5.0%	General Motors Corp., 6.25%, 10/2/2043, BBB–	57,530	51,846	5,684
6/20/2013 9/20/2018	730,000[4]	5.0%	Sprint Communications, Inc., 6.0%, 12/1/2016, B+	46,675	27,955	18,720
12/20/2013 3/20/2019	3,000,000[5]	5.0%	Sprint Communications, Inc., 6.0%, 12/1/2016, B+	172,448	231,598	(59,150)
Total net unrealized appreciation						**1,230**

(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 Barclays Bank PLC
2 Morgan Stanley
3 Credit Suisse
4 Bank of America
5 Goldman Sachs & Co.

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, 2015 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	$ —	$116,715,143	$ 0	$116,715,143
Government & Agency Obligation	—	2,064,735	—	2,064,735
Loan Participations and Assignments	—	978,065	0	978,065
Convertible Bond	—	—	2,371,717	2,371,717
Preferred Security	—	1,032,850	—	1,032,850
Common Stocks (j)	4,146	—	123,989	128,135
Preferred Stock	—	576,786	—	576,786
Warrants	—	—	6,474	6,474
Short-Term Investments (j)	15,732,331	—	—	15,732,331
Derivatives (k)				
Credit Default Swap Contracts	—	60,380	—	60,380
Total	**$ 15,736,477**	**$121,427,959**	**$ 2,502,180**	**$139,666,616**

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives (k)				
Credit Default Swap Contracts	$ —	$ (59,150)	$ —	$ (59,150)
Total	**$ —**	**$ (59,150)**	**$ —**	**$ (59,150)**

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

There have been no transfers between fair value measurement levels during the period ended June 30, 2015.

(j) See Investment Portfolio for additional detailed categorizations.

(k) Derivatives include unrealized appreciation (depreciation) on credit default swap contracts.

Level 3 Reconciliation

The following is a reconciliation of the Fund's Level 3 investments for which significant unobservable inputs were used in determining value:

	Corporate Bonds	Loan Participations and Assignments	Convertible Bonds	Common Stocks	Warrants	Total
Balance as of December 31, 2014	$ 0	$ 0	$ 2,241,938	$ 59,212	$ 89,364	**$2,390,514**
Realized gains (loss)	—	—	—	(911)	—	**(911)**
Change in unrealized appreciation (depreciation)	—	—	156,763	64,490	(82,890)	**138,363**
Amortization of premium/accretion of discount	—	—	(26,984)	—	—	**(26,984)**
Purchases	—	—	—	1,198	—	**1,198**
(Sales)	—	—	—	0	—	—
Transfer into Level 3	—	—	—	—	—	—
Transfer (out) of Level 3	—	—	—	—	—	—
Balance as of June 30, 2015	**$ 0**	**$ 0**	**$ 2,371,717**	**$ 123,989**	**$ 6,474**	**$2,502,180**
Net change in unrealized appreciation (depreciation) from investments still held as of June 30, 2015	**$ —**	**$ —**	**$ (156,673)**	**$ 63,579**	**$ (4,335)**	**$ (97,429)**

Quantitative Disclosure About Significant Unobservable Inputs

Asset Class	Fair Value at 6/30/15	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Common Stocks				
Consumer Discretionary	$ 21,392	Market Approach	EV/EBITDA Multiple	9.81
			Discount to public comparables	15%
			Discount for lack of marketability	15%
Industrials	$ 0	Asset Valuation	Book Value of Equity	0%
Materials	$ 102,597	Market Approach	EV/EBITDA Multiple	6.84
			Discount to public comparables	20%
			Discount for lack of marketability	25%
Warrants				
Materials	$ 6,474	Black Scholes Option Pricing Model	Implied Volatility	25%
			Discount for lack of marketability	20%
Loan Participations & Assignments				
Senior Loans	$ 0	Market Approach	Evaluated Price	0
Corporate Bonds				
Finance	$ 0	Asset Valuation	Book Value	0
Convertible Bonds				
Materials	$ 2,371,717	Convertible Bond Methodology	EV/EBITDA Multiple	6.84
			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 a direct 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, 2015 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $125,165,820) — including $12,780,279 of securities loaned	$	123,873,905
Investment in Daily Assets Fund Institutional (cost $13,271,710)*		13,271,710
Investment in Central Cash Management Fund (cost $2,460,621)		2,460,621
Total investments in securities, at value (cost $140,898,151)		139,606,236
Receivable for investments sold		161,689
Receivable for investments sold — when-issued securities		181,125
Receivable for Fund shares sold		4,830
Interest receivable		1,972,068
Unrealized appreciation on bilateral swap contracts		60,380
Upfront payments paid on bilateral swap contracts		372,293
Foreign taxes recoverable		91
Other assets		1,464
Total assets		142,360,176

Liabilities		
Payable upon return of securities loaned		13,271,710
Payable for investments purchased		132,747
Payable for investments purchased — when-issued securities		677,820
Payable for Fund shares redeemed		567,748
Unrealized depreciation on bilateral swap contracts		59,150
Accrued management fee		52,071
Accrued Trustees' fees		1,899
Other accrued expenses and payables		109,366
Total liabilities		14,872,511
Net assets, at value	**$**	**127,487,665**

Net Assets Consist of		
Undistributed net investment income		3,370,452
Net unrealized appreciation (depreciation) on:		
Investments		(1,291,915)
Swap contracts		1,230
Accumulated net realized gain (loss)		(37,988,799)
Paid-in capital		163,396,697
Net assets, at value	**$**	**127,487,665**
Class A		
Net Asset Value, offering and redemption price per share ($127,376,890 ÷ 20,152,518 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**6.32**
Class B		
Net Asset Value, offering and redemption price per share ($110,775 ÷ 17,454 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**6.35**

* 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, 2015 (Unaudited)

Investment Income		
Interest	$	3,943,506
Dividends		35,642
Income distributions — Central Cash Management Fund		4,057
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		18,031
Total income		4,001,236
Expenses: Management fee		350,706
Administration fee		70,141
Distribution service fee (Class B)		3,371
Recordkeeping fees (Class B)		1,984
Services to shareholders		713
Custodian fee		14,992
Professional fees		45,846
Reports to shareholders		19,344
Trustees' fees and expenses		4,171
Other		21,019
Total expenses before expense reductions		532,287
Expense reductions		(23,474)
Total expenses after expense reductions		508,813
Net investment income (loss)		**3,492,423**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from: Investments		(772,980)
Swap contracts		314,200
Foreign currency		(136)
		(458,916)
Change in net unrealized appreciation (depreciation) on: Investments		(184,833)
Swap contracts		(12,405)
Foreign currency		4
		(197,234)
Net gain (loss)		**(656,150)**
Net increase (decrease) in net assets resulting from operations	**$**	**2,836,273**

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, 2015 (Unaudited)	Year Ended December 31, 2014
Operations:		
Net investment income	$ 3,492,423	$ 8,068,202
Net realized gain (loss)	(458,916)	1,188,317
Change in net unrealized appreciation (depreciation)	(197,234)	(6,349,088)
Net increase (decrease) in net assets resulting from operations	2,836,273	2,907,431
Distributions to shareholders from:		
Net investment income:		
Class A	(8,457,661)	(10,554,088)
Class B	(6,469)	(119,183)
Total distributions	(8,464,130)	(10,673,271)
Fund share transactions:		
Class A		
Proceeds from shares sold	10,485,677	12,833,015
Reinvestment of distributions	8,457,661	10,554,088
Payments for shares redeemed	(21,022,429)	(45,572,381)
Net increase (decrease) in net assets from Class A share transactions	(2,079,091)	(22,185,278)
Class B		
Proceeds from shares sold	7,919,108	7,949,939
Reinvestment of distributions	6,469	119,183
Payments for shares redeemed	(7,952,553)	(8,248,423)
Net increase (decrease) in net assets from Class B share transactions	(26,976)	(179,301)
Increase (decrease) in net assets	(7,733,924)	(30,130,419)
Net assets at beginning of period	135,221,589	165,352,008
Net assets at end of period (including undistributed net investment income of $3,370,452 and $8,342,159, respectively)	**$ 127,487,665**	**$ 135,221,589**
Other Information		
Class A		
Shares outstanding at beginning of period	20,495,541	23,727,813
Shares sold	1,582,894	1,881,827
Shares issued to shareholders in reinvestment of distributions	1,315,344	1,575,237
Shares redeemed	(3,241,261)	(6,689,336)
Net increase (decrease) in Class A shares	(343,023)	(3,232,272)
Shares outstanding at end of period	**20,152,518**	**20,495,541**
Class B		
Shares outstanding at beginning of period	3,764	46,339
Shares sold	1,195,812	1,159,065
Shares issued to shareholders in reinvestment of distributions	998	17,657
Shares redeemed	(1,183,120)	(1,219,297)
Net increase (decrease) in Class B shares	13,690	(42,575)
Shares outstanding at end of period	**17,454**	**3,764**

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

Financial Highlights

Class A	Six Months Ended 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$ 6.60**	**$ 6.96**	**$ 6.93**	**$ 6.56**	**$ 6.90**	**$ 6.55**
Income (loss) from investment operations:						
Net investment income[a]	.16	.36	.39	.45	.51	.52
Net realized and unrealized gain (loss)	(.03)	(.25)	.14	.48	(.24)	.36
Total from investment operations	.13	.11	.53	.93	.27	.88
Less distributions from:						
Net investment income	(.41)	(.47)	(.50)	(.56)	(.61)	(.53)
Net asset value, end of period	**$ 6.32**	**$ 6.60**	**$ 6.96**	**$ 6.93**	**$ 6.56**	**$ 6.90**
Total Return (%)	1.85[b]**	1.47[b]	7.91[b]	14.91	3.84	14.00
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	127	135	165	178	169	195
Ratio of expenses before expense reductions (%)	.75*	.75	.73	.72	.72	.72
Ratio of expenses after expense reductions (%)	.72*	.73	.72	.72	.72	.72
Ratio of net investment income (%)	4.98*	5.21	5.69	6.68	7.59	7.90
Portfolio turnover rate (%)	31**	52	58	58	59	93

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 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$ 6.63**	**$ 6.99**	**$ 6.97**	**$ 6.59**	**$ 6.93**	**$ 6.58**
Income (loss) from investment operations:						
Net investment income[a]	.16	.35	.36	.43	.49	.50
Net realized and unrealized gain (loss)	(.04)	(.26)	.15	.49	(.24)	.36
Total from investment operations	.12	.09	.51	.92	.25	.86
Less distributions from:						
Net investment income	(.40)	(.45)	(.49)	(.54)	(.59)	(.51)
Net asset value, end of period	**$ 6.35**	**$ 6.63**	**$ 6.99**	**$ 6.97**	**$ 6.59**	**$ 6.93**
Total Return (%)	1.62[b]**	1.22[b]	7.44[b]	14.70[b]	3.57	13.64
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ thousands)	111	25	324	92	85	144
Ratio of expenses before expense reductions (%)	1.15*	1.13	1.10	.99	.99	.99
Ratio of expenses after expense reductions (%)	1.00*	.97	.97	.99	.99	.99
Ratio of net investment income (%)	4.86*	5.09	5.29	6.42	7.33	7.63
Portfolio turnover rate (%)	31**	52	58	58	59	93

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 (the "Fund") is a diversified series of Deutsche 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. 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 broker-dealers. Certain securities may be valued on the basis of a price provided by a single source or broker-dealer. No active trading market may exist for some senior loans and they may be subject to restrictions on resale. The inability to dispose of senior loans in a timely fashion could result in losses. 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, 2015, 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, 2014, the Fund had a net tax basis capital loss carryforward of approximately $37,593,000, including $35,391,000 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, 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 $2,202,000 of post-enactment long-term losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($614,000) and long-term losses ($1,588,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 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 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, 2015, 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, 2015 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2015, the Fund's investment in credit default swap contracts sold had a total notional value generally indicative of a range from $4,945,000 to $7,200,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2015 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)	$ 60,380

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

(a) Unrealized appreciation on bilateral swap contracts

Liability Derivative	**Swap Contracts**
Credit Contracts (a)	$ (59,150)

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

(a) Unrealized depreciation on bilateral swap contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the six months ended June 30, 2015 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Swap Contracts**
Credit Contracts (a)	$ 314,200

The above derivative is located in the following Statement of Operations account:
(a) Net realized gain (loss) from swap contracts

Change in Net Unrealized Appreciation (Depreciation)	**Swap Contracts**
Credit Contracts (a)	$ (12,405)

The above derivative is located in the following Statement of Operations account:
(a) Change in net unrealized appreciation (depreciation) on swap contracts

As of June 30, 2015, 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 counterparty, 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	$ 18,720	$ —	$ —	$ 18,720
Barclays Bank PLC	580	—	—	580
Credit Suisse	5,684	—	—	5,684
Morgan Stanley	35,396	—	—	35,396
	$ 60,380	**$ —**	**$ —**	**$ 60,380**

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**
Goldman Sachs & Co.	**$ 59,150**	**$ —**	**$ —**	**$ 59,150**

C. Purchases and Sales of Securities

During the six months ended June 30, 2015, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury securities) aggregated $40,524,293 and $39,274,697, respectively. Purchases of U.S. Treasury obligations aggregated $1,009,066.

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, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annualized rate (exclusive of any applicable waivers/reimbursements) of 0.50% of the Fund's average daily net assets.

For the period from January 1, 2015 through April 30, 2015, 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 total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.72%
Class B	1.00%

Effective May 1, 2015 through April 30, 2016, 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 total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.72%
Class B	1.11%

For the six months ended June 30, 2015, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 21,513
Class B	1,961
	$ 23,474

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, 2015, the Administration Fee was $70,141, of which $10,969 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, 2015, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at June 30, 2015**
Class A	$ 145	$ 65
Class B	25	13
	$ 170	**$ 78**

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, 2015, the Distribution Service Fee was $3,371, 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, 2015, the

amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $9,174, all of which was 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 1940 Act, 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, 2015, the Fund incurred lending agent fees to Deutsche Bank AG for the amount of $1,568.

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, 2015, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 27% and 61%. 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 79% and 20%.

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 the one-month 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, 2015.

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, 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, 2015 to June 30, 2015).

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, 2015

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$1,018.50	$1,016.20
Expenses Paid per $1,000*	$ 3.60	$ 5.00
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$1,021.22	$1,019.84
Expenses Paid per $1,000*	$ 3.61	$ 5.01

* 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%	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 Deutsche High Income VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

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

— In September 2014, 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 counsel to discuss contract review and other matters. In addition, the Independent Trustees were 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 ("DB"), 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 Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's 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 index(es) 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 a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, 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-year period and has underperformed its benchmark in the three- and five-year periods ended December 31, 2013.

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, 2013). 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, 2013, 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 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 that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. 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 information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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 Deutsche U.S. mutual funds ("Deutsche 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 DIMA 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.

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 Deutsche 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 DIMA's 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 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

VS2HI-3 (R-028385-4 8/15)

Deutsche Asset
& Wealth Management

June 30, 2015

Semiannual Report

Deutsche Variable Series II

Deutsche 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.

Stocks may decline in value. 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

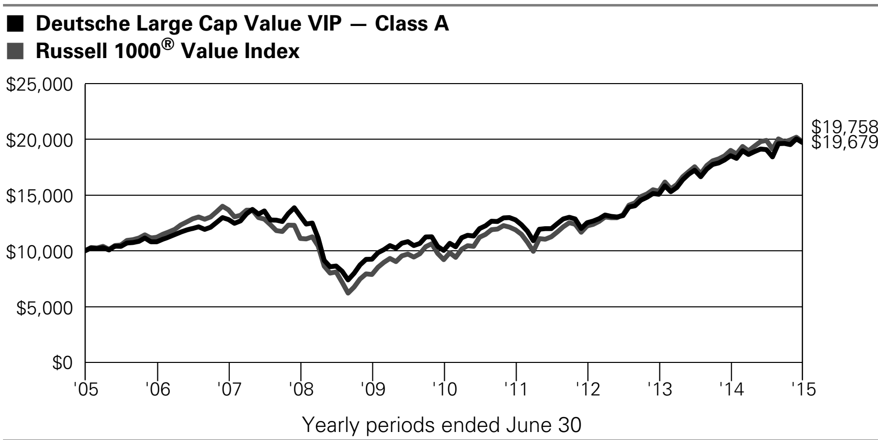
Performance Summary

June 30, 2015 (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, 2015 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	$10,330	$10,636	$15,728	$19,616	$19,679
	Average annual total return	3.30%	6.36%	16.29%	14.43%	7.00%
Russell 1000® Value Index	Growth of $10,000	$9,939	$10,413	$16,157	$21,460	$19,758
	Average annual total return	–0.61%	4.13%	17.34%	16.50%	7.05%

Deutsche Large Cap Value VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,308	$10,601	$15,575	$19,317	$19,029
	Average annual total return	3.08%	6.01%	15.92%	14.07%	6.65%
Russell 1000® Value Index	Growth of $10,000	$9,939	$10,413	$16,157	$21,460	$19,758
	Average annual total return	–0.61%	4.13%	17.34%	16.50%	7.05%

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)	**6/30/15**	**12/31/14**
Common Stocks	100%	100%
Cash Equivalents	—	0%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/15**	**12/31/14**
Health Care	32%	24%
Consumer Discretionary	15%	10%
Financials	14%	21%
Information Technology	10%	14%
Energy	8%	11%
Industrials	6%	10%
Utilities	6%	2%
Materials	6%	3%
Consumer Staples	3%	5%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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

Deepak Khanna, CFA

Lead Portfolio Manager

	Shares	Value ($)
Common Stocks 99.7%		
Consumer Discretionary 14.9%		
Hotels, Restaurants & Leisure 4.8%		
Carnival Corp.	86,203	4,257,566
Del Taco Restaurants, Inc.*	58,492	890,248
Las Vegas Sands Corp.	159,992	8,410,780
Yum! Brands, Inc.	72,521	6,532,692
		20,091,286
Household Durables 1.3%		
Whirlpool Corp.	30,889	**5,345,341**
Media 6.4%		
Comcast Corp. "A" (a)	117,297	7,054,242
Starz "A"* (a)	163,506	7,311,988
Viacom, Inc. "B"	193,806	12,527,620
		26,893,850
Multiline Retail 1.0%		
Dillard's, Inc. "A" (a)	40,581	**4,268,715**
Specialty Retail 1.4%		
Best Buy Co., Inc.	185,109	**6,036,405**
Consumer Staples 2.7%		
Beverages 1.2%		
Molson Coors Brewing Co. "B"	72,883	**5,087,962**
Food & Staples Retailing 0.6%		
CVS Health Corp.	22,901	**2,401,857**
Household Products 0.9%		
Colgate-Palmolive Co.	57,634	**3,769,840**
Energy 7.6%		
Oil, Gas & Consumable Fuels		
Devon Energy Corp.	48,021	2,856,769
EQT Corp.	63,049	5,128,406
Gulfport Energy Corp.*	68,886	2,772,661
Marathon Petroleum Corp.	116,492	6,093,697
Range Resources Corp.	114,032	5,630,900
Valero Energy Corp.	146,928	9,197,693
		31,680,126
Financials 14.3%		
Banks 5.0%		
Citigroup, Inc.	226,408	12,506,778
East West Bancorp., Inc.	86,217	3,864,246
SVB Financial Group*	32,122	4,624,925
		20,995,949
Consumer Finance 3.1%		
Capital One Financial Corp.	88,037	7,744,615
Discover Financial Services	88,248	5,084,850
		12,829,465
Insurance 0.8%		
Hartford Financial Services Group, Inc.	78,014	**3,243,042**
Real Estate Investment Trusts 1.2%		
HCP, Inc. (REIT)	138,732	**5,059,556**
Real Estate Management & Development 4.2%		
CBRE Group, Inc. "A"*	163,730	6,058,010
Jones Lang LaSalle, Inc.	33,784	5,777,064
Realogy Holdings Corp.*	127,224	5,943,905
		17,778,979

	Shares	Value ($)
Health Care 31.9%		
Biotechnology 7.0%		
Alexion Pharmaceuticals, Inc.*	52,346	9,462,587
Celgene Corp.*	80,717	9,341,782
Gilead Sciences, Inc.	40,652	4,759,536
Medivation, Inc.*	1,921	219,378
Puma Biotechnology, Inc.* (a)	31,057	3,625,905
Sarepta Therapeutics, Inc.* (a)	66,614	2,027,064
		29,436,252
Health Care Equipment & Supplies 1.3%		
Zimmer Biomet Holdings, Inc.	47,474	**5,185,585**
Health Care Providers & Services 14.7%		
Anthem, Inc.	34,762	5,705,835
Centene Corp.*	91,460	7,353,384
Cigna Corp.	91,753	14,863,986
Community Health Systems, Inc.*	135,329	8,521,667
DaVita HealthCare Partners, Inc.*	95,302	7,573,650
Diplomat Pharmacy, Inc.* (a)	95,423	4,270,179
Humana, Inc.	28,253	5,404,234
Tenet Healthcare Corp.*	137,803	7,976,038
		61,668,973
Life Sciences Tools & Services 2.9%		
Agilent Technologies, Inc.	108,425	4,183,036
Thermo Fisher Scientific, Inc.	60,309	7,825,696
		12,008,732
Pharmaceuticals 6.0%		
Allergan PLC*	26,207	7,952,776
Endo International PLC*	136,834	10,898,828
Mallinckrodt PLC* (a)	54,651	6,433,516
		25,285,120
Industrials 6.2%		
Aerospace & Defense 4.0%		
Northrop Grumman Corp.	54,204	8,598,380
Raytheon Co.	84,369	8,072,426
		16,670,806
Air Freight & Logistics 1.4%		
FedEx Corp.	35,406	**6,033,182**
Building Products 0.8%		
A.O. Smith Corp.	46,427	**3,341,816**
Information Technology 10.3%		
Communications Equipment 2.9%		
Cisco Systems, Inc.	439,842	**12,078,061**
Electronic Equipment, Instruments & Components 1.2%		
Corning, Inc.	262,962	**5,188,240**
Internet Software & Services 3.0%		
Rackspace Hosting, Inc.*	147,303	5,478,198
Yahoo!, Inc.*	176,092	6,918,655
		12,396,853
IT Services 3.2%		
Alliance Data Systems Corp.*	29,170	8,515,890
Vantiv, Inc. "A"*	126,024	4,812,857
		13,328,747

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

	Shares	Value ($)
Materials 5.8%		
Chemicals 2.4%		
PPG Industries, Inc.	49,068	5,629,081
Valspar Corp.	55,273	4,522,437
		10,151,518
Containers & Packaging 1.4%		
Rock-Tenn Co. "A"	98,987	**5,959,018**
Metals & Mining 2.0%		
Freeport-McMoRan, Inc.	135,544	2,523,829
Newmont Mining Corp.	241,708	5,646,299
		8,170,128
Utilities 6.0%		
Electric Utilities 2.4%		
Duke Energy Corp.	58,060	4,100,197
NextEra Energy, Inc.	63,514	6,226,278
		10,326,475
Gas Utilities 0.5%		
UGI Corp.	58,165	**2,003,784**
Multi-Utilities 3.1%		
Dominion Resources, Inc.	76,585	5,121,239
Sempra Energy	79,113	7,827,440
		12,948,679
Total Common Stocks (Cost $393,015,261)		**417,664,342**

Securities Lending Collateral 6.7%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.16% (b) (c) (Cost $28,112,354)	28,112,354	**28,112,354**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $421,127,615)†	106.4	**445,776,696**
Other Assets and Liabilities, Net	(6.4)	**(26,852,632)**
Net Assets	100.0	**418,924,064**

* Non-income producing security.

† The cost for federal income tax purposes was $421,536,536. At June 30, 2015, net unrealized appreciation for all securities based on tax cost was $24,240,160. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $45,800,062 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $21,559,902.

(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, 2015 amounted to $27,985,165, which is 6.7% of net assets.

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

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

REIT: Real Estate Investment Trust

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2015 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)	$417,664,342	$ —	$ —	$417,664,342
Short-Term Investments	28,112,354	—	—	28,112,354
Total	**$445,776,696**	**$ —**	**$ —**	**$445,776,696**

There have been no transfers between fair value measurement levels during the period ended June 30, 2015.

(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, 2015 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $393,015,261) — including $27,985,165 of securities loaned	$	417,664,342
Investment in Daily Assets Fund Institutional (cost $28,112,354)*		28,112,354
Total investments in securities, at value (cost $421,127,615)		445,776,696
Foreign currency, at value (cost $29,493)		28,421
Receivable for investments sold		3,139,319
Receivable for Fund shares sold		22,062
Dividends receivable		349,660
Interest receivable		6,246
Other assets		6,415
Total assets		449,328,819
Liabilities		
Cash overdraft		220,321
Payable upon return of securities loaned		28,112,354
Payable for investments purchased		1,305,225
Payable for Fund shares redeemed		452,279
Accrued management fee		208,919
Accrued Trustees' fees		3,176
Other accrued expenses and payables		102,481
Total liabilities		30,404,755
Net assets, at value	**$**	**418,924,064**
Net Assets Consist of		
Undistributed net investment income		1,125,188
Net unrealized appreciation (depreciation) on:		
Investments		24,649,081
Foreign currency		(1,072)
Accumulated net realized gain (loss)		26,248,403
Paid-in capital		366,902,464
Net assets, at value	**$**	**418,924,064**
Class A		
Net Asset Value, offering and redemption price per share ($413,742,716 ÷ 24,401,955 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**16.96**
Class B		
Net Asset Value, offering and redemption price per share ($5,181,348 ÷ 304,701 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**17.00**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2015 (Unaudited)

Investment Income		
Income:		
Dividends	$	2,641,358
Income distributions — Central Cash Management Fund		1,628
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		25,787
Total income		2,668,773
Expenses:		
Management fee		1,369,063
Administration fee		214,091
Services to shareholders		2,372
Record keeping fees (Class B)		1,470
Distribution and service fee (Class B)		6,394
Custodian fee		7,058
Professional fees		36,546
Reports to shareholders		17,703
Trustees' fees and expenses		9,927
Other		8,555
Total expenses before expense reductions		1,673,179
Expense reductions		(101,641)
Total expenses after expense reductions		1,571,538
Net investment income	**$**	**1,097,235**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		26,801,480
Foreign currency		(768)
		26,800,712
Change in net unrealized appreciation (depreciation) on:		
Investments		(13,798,787)
Foreign currency		1,431
		(13,797,356)
Net gain (loss)		**13,003,356**
Net increase (decrease) in net assets resulting from operations		**14,100,591**

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, 2015 (Unaudited)	Year Ended December 31, 2014
Operations:		
Net investment income	$ 1,097,235	$ 6,247,902
Net realized gain (loss)	26,800,712	115,236,680
Change in net unrealized appreciation (depreciation)	(13,797,356)	(77,036,705)
Net increase (decrease) in net assets resulting from operations	14,100,591	44,447,877
Distributions to shareholders from:		
Net investment income:		
Class A	(5,899,426)	(7,350,279)
Class B	(54,717)	(66,263)
Net realized gains:		
Class A	(17,852,466)	—
Class B	(214,368)	—
Total distributions	(24,020,977)	(7,416,542)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,936,931	11,756,922
Reinvestment of distributions	23,751,892	7,350,279
Payments for shares redeemed	(33,592,920)	(57,676,534)
Net increase (decrease) in net assets from Class A share transactions	(6,904,097)	(38,569,333)
Class B		
Proceeds from shares sold	280,706	1,147,061
Reinvestment of distributions	269,085	66,263
Payments for shares redeemed	(427,687)	(1,111,822)
Net increase (decrease) in net assets from Class B share transactions	122,104	101,502
Increase (decrease) in net assets	(16,702,379)	(1,436,496)
Net assets at beginning of period	435,626,443	437,062,939
Net assets at end of period (including undistributed net investment income of $1,125,188 and $5,982,096, respectively)	**$ 418,924,064**	**$ 435,626,443**

Other Information		
Class A		
Shares outstanding at beginning of period	24,769,255	27,072,074
Shares sold	169,544	711,170
Shares issued to shareholders in reinvestment of distributions	1,389,812	455,690
Shares redeemed	(1,926,656)	(3,469,679)
Net increase (decrease) in Class A shares	(367,300)	(2,302,819)
Shares outstanding at end of period	**24,401,955**	**24,769,255**
Class B		
Shares outstanding at beginning of period	297,108	289,672
Shares sold	16,057	68,963
Shares issued to shareholders in reinvestment of distributions	15,690	4,095
Shares redeemed	(24,154)	(65,622)
Net increase (decrease) in Class B shares	7,593	7,436
Shares outstanding at end of period	**304,701**	**297,108**

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

Financial Highlights

Class A	Six Months Ended 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$17.38**	**$15.97**	**$12.45**	**$11.56**	**$11.80**	**$10.86**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.04	.24	.26	.25	.25	.23
Net realized and unrealized gain (loss)	.54	1.45	3.54	.87	(.24)	.93
Total from investment operations	.58	1.69	3.80	1.12	.01	1.16
Less distributions from:						
Net investment income	(.25)	(.28)	(.28)	(.23)	(.25)	(.22)
Net realized gains on investment transactions	(.75)	—	—	—	—	—
Total distributions	(1.00)	(.28)	(.28)	(.23)	(.25)	(.22)
Net asset value, end of period	**$16.96**	**$17.38**	**$15.97**	**$12.45**	**$11.56**	**$11.80**
Total Return (%)	3.30[b]**	10.72[b]	30.89[b]	9.79[b]	(.07)	10.77
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	414	430	432	377	396	206
Ratio of expenses before expense reductions (%)	.78*	.78	.78	.78	.79	.82
Ratio of expenses after expense reductions (%)	.73*	.73	.74	.77	.79	.82
Ratio of net investment income (loss) (%)	.52*	1.43	1.82	2.04	2.15	2.13
Portfolio turnover rate (%)	57**	133	54	63	28	32

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 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$17.40**	**$15.99**	**$12.46**	**$11.57**	**$11.81**	**$10.86**
Income (loss) from investment operations:						
Net investment income (loss)[a]	.02	.18	.22	.21	.22	.20
Net realized and unrealized gain (loss)	.52	1.46	3.55	.88	(.25)	.93
Total from investment operations	.54	1.64	3.77	1.09	(.03)	1.13
Less distributions from:						
Net investment income	(.19)	(.23)	(.24)	(.20)	(.21)	(.18)
Net realized gains on investment transactions	(.75)	—	—	—	—	—
Total distributions	(.94)	(.23)	(.24)	(.20)	(.21)	(.18)
Net asset value, end of period	**$17.00**	**$17.40**	**$15.99**	**$12.46**	**$11.57**	**$11.81**
Total Return (%)	3.08[b]**	10.36[b]	30.54[b]	9.44[b]	(.36)	10.53
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	5	5	5	4	3	1
Ratio of expenses before expense reductions (%)	1.09*	1.09	1.09	1.09	1.10	1.11
Ratio of expenses after expense reductions (%)	1.04*	1.04	1.05	1.08	1.10	1.11
Ratio of net investment income (loss) (%)	.21*	1.10	1.52	1.73	1.84	1.84
Portfolio turnover rate (%)	57**	133	54	63	28	32

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 (the "Fund") is a diversified series of Deutsche 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, 2015, 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, 2014 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, 2015, purchases and sales of investment transactions (excluding short-term investments) aggregated $242,310,774 and $271,445,861, 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, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annualized rate (exclusive of any applicable waivers/reimbursements) of 0.64% of the Fund's average daily net assets.

For the period from January 1, 2015 through April 30, 2016, 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 total annual 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, 2015, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 100,378
Class B	1,263
	$ 101,641

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, 2015, the Administration Fee was $214,091, of which $35,112 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, 2015, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at June 30, 2015
Class A	$ 204	$ 103
Class B	117	57
	$ 321	**$ 160**

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, 2015, the Distribution Service Fee aggregated $6,394, of which $1,073 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, 2015, the

amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $7,167, of which $6,170 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 1940 Act, 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, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $2,242.

D. Ownership of the Fund

At June 30, 2015, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 61%, 24% and 10%. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 61% 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 the one-month 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, 2015.

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, 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, 2015 to June 30, 2015).

— **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, 2015

Actual Fund Return	Class A	Class B
Beginning Account Value 1/1/15	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$1,033.00	$1,030.80
Expenses Paid per $1,000*	$ 3.68	$ 5.24
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$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 Deutsche Large Cap Value VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

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

— In September 2014, 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 counsel to discuss contract review and other matters. In addition, the Independent Trustees were 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 ("DB"), 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 Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's 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 index(es) 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 a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, 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 underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2013. 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 2014. The Board recognized the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche 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 (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). 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, 2013, 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 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 that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. 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 information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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 Deutsche U.S. mutual funds ("Deutsche 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 DIMA 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.

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 Deutsche 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 DIMA's 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 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

VS2LCV-3 (R-028386-4 8/15)

Deutsche Asset
& Wealth Management

June 30, 2015

Semiannual Report

Deutsche Variable Series II

Deutsche 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.

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

Performance Summary

June 30, 2015 (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, 2015	.01%*
December 31, 2014	.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)	**6/30/15**	**12/31/14**
Commercial Paper	57%	54%
Certificates of Deposit and Bank Notes	23%	10%
Short-Term Notes	6%	6%
Government & Agency Obligations	5%	5%
Time Deposits	4%	4%
Repurchase Agreements	4%	20%
Municipal Bonds and Notes	1%	1%
	100%	100%

Weighted Average Maturity*	**6/30/15**	**12/31/14**
Deutsche Variable Series II — Deutsche Money Market VIP	37 days	46 days
First Tier Retail Money Fund Average	36 days	40 days

* The Fund is compared to its respective iMoneyNet Category: First Tier Retail Money Fund Average — Category includes a widely recognized composite of money market funds that invest in only first tier (highest rating) securities. Portfolio Holdings of First Tier funds include U.S. Treasury, U.S. Other, Repos, Time Deposits, Domestic Bank Obligations, Foreign Bank Obligations, First Tier Commercial Paper, Floating Rate Notes and Asset Backed Commercial Paper.

Weighted average maturity, also known as effective maturity, is the weighted average of the maturity date of bonds held by the Fund taking into consideration any available maturity shortening features.

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. In addition, each month, information about the Fund and its portfolio holdings is filed with the SEC on Form N-MFP. The SEC delays the public availability of the information filed on Form N-MFP for 60 days after the end of the reporting period included in the filing. These forms will be available on the SEC's Web site at 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 23.1%		
Banco del Estado de Chile:		
0.25%, 8/28/2015	1,000,000	1,000,000
0.3%, 10/6/2015	1,200,000	1,200,000
0.31%, 9/2/2015	1,000,000	1,000,000
0.32%, 11/4/2015	1,200,000	1,200,000
0.43%, 12/16/2015	1,000,000	1,000,000
Bank of Montreal, 0.25%, 7/15/2015	1,500,000	1,500,000
Canadian Imperial Bank of Commerce, 0.11%, 7/1/2015	3,000,000	3,000,000
Credit Suisse, 0.23%, 7/2/2015	1,000,000	1,000,000
DZ Bank AG:		
0.21%, 7/7/2015	1,000,000	1,000,000
0.28%, 9/2/2015	1,500,000	1,500,000
0.33%, 9/18/2015	1,000,000	1,000,000
Industrial & Commercial Bank of China Ltd., 0.3%, 8/24/2015	1,200,000	1,200,000
Mizuho Bank Ltd.:		
0.26%, 8/14/2015	1,500,000	1,500,000
0.27%, 7/23/2015	1,000,000	1,000,024
Rabobank Nederland NV, 0.43%, 3/4/2016	1,200,000	1,200,000
Standard Chartered Bank, 0.31%, 10/5/2015	1,500,000	1,500,000
Sumitomo Mitsui Banking Corp.:		
0.14%, 7/1/2015	5,000,000	5,000,000
0.25%, 7/24/2015	1,500,000	1,500,000
Swedbank AB, 0.09%, 7/1/2015	7,000,000	7,000,000
The Toronto-Dominion Bank:		
0.295%, 7/13/2015	800,000	800,000
0.43%, 3/2/2016	1,500,000	1,500,000
Total Certificates of Deposit and Bank Notes (Cost $36,600,024)		**36,600,024**
Commercial Paper 57.8%		
Issued at Discount 42.7%**		
Bank Nederlandse Gemeenten:		
0.285%, 9/17/2015	1,800,000	1,798,889
0.295%, 9/14/2015	1,000,000	999,385
Bedford Row Funding Corp.:		
144A, 0.35%, 8/27/2015	500,000	499,723
144A, 0.35%, 10/19/2015	750,000	749,198
144A, 0.47%, 12/11/2015	1,000,000	997,872
Caisse Centrale Desjardins, 0.12%, 7/2/2015	4,000,000	3,999,987
Caisse des Depots et Consignations:		
144A, 0.21%, 9/16/2015	1,500,000	1,499,326
144A, 0.285%, 9/22/2015	1,500,000	1,499,014
Cancara Asset Securitization LLC, 144A, 0.12%, 7/1/2015	4,685,000	4,685,000
CNPC Finance HK Ltd.:		
144A, 0.43%, 7/20/2015	3,000,000	2,999,319
144A, 0.44%, 8/11/2015	500,000	499,749
Coca-Cola Co., 0.31%, 9/16/2015	800,000	799,470
Collateralized Commercial Paper Co., LLC, 0.24%, 7/8/2015	2,200,000	2,199,897
Collateralized Commercial Paper II Co., LLC:		
144A, 0.26%, 10/8/2015	1,000,000	999,285
144A, 0.26%, 10/9/2015	1,000,000	999,278

	Principal Amount ($)	Value ($)
DBS Bank Ltd., 144A, 0.25%, 7/7/2015	1,200,000	1,199,950
Erste Abwicklungsanstalt, 144A, 0.28%, 7/28/2015	1,500,000	1,499,685
Hannover Funding Co., LLC, 0.3%, 7/8/2015	2,000,000	1,999,883
Matchpoint Finance PLC:		
0.11%, 7/6/2015	1,000,000	999,985
0.12%, 7/1/2015	6,000,000	6,000,000
MetLife Short Term Funding LLC, 144A, 0.23%, 7/15/2015	1,750,000	1,749,843
Nederlandse Waterschapsbank NV:		
0.19%, 7/27/2015	500,000	499,931
0.28%, 7/9/2015	800,000	799,950
Nissan Motor Acceptance Corp., 0.34%, 7/9/2015	700,000	699,949
Old Line Funding LLC:		
144A, 0.3%, 10/26/2015	2,000,000	1,998,050
144A, 0.32%, 11/16/2015	1,000,000	998,773
Prudential Funding LLC, 0.06%, 7/1/2015	1,000,000	1,000,000
Rabobank Nederland NV, 0.33%, 12/7/2015	1,500,000	1,497,814
Regency Markets No. 1 LLC, 144A, 0.14%, 7/10/2015	6,000,000	5,999,790
Sinopec Century Bright Capital Investment Ltd.:		
0.41%, 7/14/2015	1,000,000	999,852
0.42%, 8/20/2015	1,000,000	999,417
Standard Chartered Bank:		
0.27%, 7/6/2015	1,500,000	1,499,944
0.34%, 9/10/2015	1,800,000	1,798,793
Svenska Handelsbanken AB:		
0.2%, 7/22/2015	1,485,000	1,484,827
0.25%, 8/4/2015	1,000,000	999,764
0.32%, 11/18/2015	1,200,000	1,198,507
United Overseas Bank Ltd., 0.27%, 9/14/2015	1,500,000	1,499,156
Victory Receivables Corp., 144A, 0.14%, 7/2/2015	5,000,000	4,999,981
		67,649,236
Issued at Par* 15.1%		
Australia & New Zealand Banking Group Ltd., 144A, 0.375%, 8/18/2015	800,000	800,000
Bank Nederlandse Gemeenten, 144A, 0.287%, 2/25/2016	1,000,000	1,000,000
Bank of Montreal, 0.283%, 10/9/2015	1,500,000	1,500,000
Bank of Nova Scotia, 0.407%, 7/22/2016	1,000,000	1,000,000
Bedford Row Funding Corp., 144A, 0.21%, 1/14/2016	1,000,000	1,000,000
Commonwealth Bank of Australia, 144A, 0.293%, 4/7/2016	1,000,000	999,952
General Electric Capital Corp., 0.258%, 8/11/2015	1,500,000	1,500,000
HSBC Bank PLC:		
144A, 0.302%, 12/9/2015	1,000,000	999,888
144A, 0.317%, 12/23/2015	1,200,000	1,200,000
JPMorgan Chase Bank NA, 0.436%, 7/22/2016	2,000,000	2,000,000
National Australia Bank Ltd., 144A, 0.284%, 10/8/2015	1,000,000	1,000,000

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

	Principal Amount ($)	Value ($)
Old Line Funding LLC, 144A, 0.305%, 12/15/2015	1,000,000	1,000,000
Rabobank Nederland NV, 0.394%, 10/1/2015	500,000	500,066
Royal Bank of Canada:		
0.273%, 9/3/2015	2,000,000	1,999,966
0.295%, 12/10/2015	1,500,000	1,500,000
Starbird Funding Corp., 144A, 0.254%, 10/2/2015	1,000,000	1,000,000
Wells Fargo Bank NA:		
0.32%, 9/9/2015	1,000,000	1,000,000
0.32%, 12/10/2015	1,000,000	1,000,000
Westpac Banking Corp.:		
0.255%, 7/17/2015	1,000,000	1,000,008
144A, 0.286%, 10/13/2015	1,000,000	1,000,000
144A, 0.29%, 3/10/2016	1,000,000	1,000,000
		23,999,880
Total Commercial Paper (Cost $91,649,116)		**91,649,116**

Short-Term Notes* 6.0%

	Principal Amount ($)	Value ($)
Bank of Nova Scotia, 0.562%, 12/31/2015	1,500,000	1,501,743
Canadian Imperial Bank of Commerce, 0.42%, 8/18/2015	1,800,000	1,800,000
Commonwealth Bank of Australia, 144A, 0.281%, 7/10/2015	1,200,000	1,200,000
Rabobank Nederland NV, 0.321%, 7/6/2015	1,500,000	1,500,000
Svenska Handelsbanken AB, 144A, 0.391%, 10/2/2015	1,500,000	1,500,000
Wells Fargo Bank NA, 0.335%, 6/3/2016	1,000,000	1,000,000
Westpac Banking Corp., 0.316%, 5/27/2016	1,000,000	1,000,000
Total Short-Term Notes (Cost $9,501,743)		**9,501,743**

Time Deposit 3.9%

	Principal Amount ($)	Value ($)
Credit Agricole Corporate & Investment Bank, 0.06%, 7/1/2015 (Cost $6,247,465)	6,247,465	**6,247,465**

Government & Agency Obligations 5.1%

U.S. Government Sponsored Agencies 3.8%

	Principal Amount ($)	Value ($)
Federal Home Loan Bank:		
0.19%, 9/3/2015	500,000	499,984
0.2%, 9/17/2015	325,000	324,988
0.21%, 10/13/2015	500,000	499,960
Federal Home Loan Mortgage Corp., 0.095%**, 9/22/2015	1,500,000	1,499,671
Federal National Mortgage Association:		
0.166%*, 10/21/2016	1,300,000	1,299,908
0.19%**, 12/14/2015	2,000,000	1,998,248
		6,122,759

U.S. Treasury Obligation 1.3%

	Principal Amount ($)	Value ($)
U.S. Treasury Notes, 0.25%, 7/31/2015	2,000,000	**2,000,359**
Total Government & Agency Obligations (Cost $8,123,118)		**8,123,118**

Municipal Bonds and Notes 0.6%

	Principal Amount ($)	Value ($)
New York, State Housing Finance Agency Revenue, 605 West 42nd Street, Series B, 144A, 0.25%***, 5/1/2048, LOC: Bank of China (Cost $1,000,000)	1,000,000	**1,000,000**

Repurchase Agreements 3.9%

	Principal Amount ($)	Value ($)
BNP Paribas, 0.2%, dated 1/21/2015, to be repurchased at $1,501,625 on 8/4/2015 (a) (b)	1,500,000	1,500,000
JPMorgan Securities, Inc., 0.424%, dated 2/13/2015, to be repurchased at $1,253,357 on 9/29/2015 (a) (c)	1,250,000	1,250,000
JPMorgan Securities, Inc., 0.451%, dated 7/3/2014, to be repurchased at $2,514,181 on 9/29/2015 (a) (d)	2,500,000	2,500,000
Wells Fargo Bank, 0.4%, dated 5/1/2015, to be repurchased at $1,001,000 on 7/30/2015 (e)	1,000,000	1,000,000
Total Repurchase Agreements (Cost $6,250,000)		**6,250,000**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $159,371,466)†	100.4	**159,371,466**
Other Assets and Liabilities, Net	(0.4)	**(695,900)**
Net Assets	100.0	**158,675,566**

* 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, 2015.

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

*** Variable rate demand notes are securities whose interest rates are reset periodically at market levels. These securities are payable on demand and are shown at their current rates as of June 30, 2015.

† The cost for federal income tax purposes was $159,371,466.

(a) Open maturity repurchase agreement whose interest rate resets periodically and is shown at the current rate as of June 30, 2015. 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 accompanying notes are an integral part of the financial statements.

(b) Collateralized by:

Principal Amount ($)	Security	Rate (%)	Maturity Date	Collateral Value ($)
3,726,981	Anadarko Petroleum Corp.	Zero Coupon	10/10/2036	1,495,451
94	Archer-Daniels-Midland Co.	5.375	9/15/2035	110
128	Bank of the West Auto Trust	1.65	3/16/2020	129
13,170	Countrywide Financial Corp.	6.25	5/15/2016	13,790
367	DIRECTV Holdings LLC	5.0	3/1/2021	404
14,042	ING Bank NV	2.5	10/1/2019	14,131
55	Intesa Sanpaolo SpA	3.125	1/15/2016	56
156	Ocean Trails CLO IV	1.577	8/13/2025	155
5,564	Omega Healthcare Investors, Inc.	6.75	10/15/2022	5,872
23,694	Petroleos Mexicanos	6.375	1/23/2045	25,043
19,248	WhiteHorse VIII Ltd.	1.778	5/1/2026	19,205
Total Collateral Value				**1,574,346**

(c) Collateralized by $1,255,000 HCA, Inc., 4.25%, maturing on 10/15/2019 with a value of $1,289,643.

(d) Collateralized by:

Principal Amount ($)	Security	Rate (%)	Maturity Date	Collateral Value ($)
477,000	Dresdner Bank AG	7.25	9/15/2015	492,138
2,030,000	HCA, Inc.	4.25	10/15/2019	2,086,036
Total Collateral Value				**2,578,174**

(e) Collateralized by $1,049,026 Burlington Northern Santa Fe LLC, 3.4%, maturing on 9/1/2024 with a value of $1,050,000.

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, 2015 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Investments in Securities (f)	$ —	$153,121,466	$ —	$153,121,466
Repurchase Agreements	—	6,250,000	—	6,250,000
Total	**$ —**	**$159,371,466**	**$ —**	**$159,371,466**

(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, 2015 (Unaudited)

Assets		
Investments in non-affiliated securities, valued at amortized cost	$	159,371,466
Receivable for investments sold		2,000,115
Receivable for Fund shares sold		536,397
Interest receivable		32,595
Other assets		1,599
Total assets		161,942,172
Liabilities		
Payable for Fund shares redeemed		3,152,965
Distributions payable		659
Accrued management fee		5,660
Accrued Trustees' fees		1,192
Other accrued expenses and payables		106,130
Total liabilities		3,266,606
Net assets, at value	**$**	**158,675,566**
Net Assets Consist of		
Undistributed net investment income		794
Accumulated net realized gain (loss)		50
Paid-in capital		158,674,722
Net assets, at value	**$**	**158,675,566**
Class A		
Net Asset Value, offering and redemption price per share ($158,675,566 ÷ 158,758,438 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**1.00**

Statement of Operations

for the six months ended June 30, 2015 (Unaudited)

Investment Income		
Income:		
Interest	$	186,017
Expenses:		
Management fee		235,400
Administration fee		82,597
Services to shareholders		1,018
Custodian fee		14,037
Professional fees		26,569
Reports to shareholders		36,854
Trustees' fee and expenses		4,285
Other		3,993
Total expenses before expense reductions		404,753
Expense reductions		(227,003)
Total expenses after expense reductions		177,750
Net investment income		**8,267**
Net realized gain (loss)		**50**
Net increase (decrease) in net assets resulting from operations	**$**	**8,317**

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

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Six Months Ended June 30, 2015 (Unaudited)	Year Ended December 31, 2014
Operations:		
Net investment income	$ 8,267	$ 17,035
Net realized gain (loss)	50	81
Net increase (decrease) in net assets resulting from operations	8,317	17,116
Distributions to shareholders from:		
Net investment income		
Class A	(8,266)	(17,036)
Fund share transactions:		
Class A		
Proceeds from shares sold	87,783,852	130,299,481
Reinvestment of distributions	8,412	16,947
Cost of shares redeemed	(106,163,399)	(126,949,638)
Net increase (decrease) in net assets from Class A share transactions	(18,371,135)	3,366,790
Increase (decrease) in net assets	(18,371,084)	3,366,870
Net assets at beginning of period	177,046,650	173,679,780
Net assets at end of period (including undistributed net investment income of $794 and $793, respectively)	**$ 158,675,566**	**$ 177,046,650**

Other Information		
Class A		
Shares outstanding at beginning of period	177,129,573	173,762,783
Shares sold	87,783,852	130,299,481
Shares issued to shareholders in reinvestment of distributions	8,412	16,947
Shares redeemed	(106,163,399)	(126,949,638)
Net increase (decrease) in Class A shares	(18,371,135)	3,366,790
Shares outstanding at end of period	**158,758,438**	**177,129,573**

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

Financial Highlights

Class A	Six Months Ended 6/30/15 (Unaudited)	Years Ended December 31, 2014	2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**
Income from investment operations:						
Net investment income	.000***	.000***	.000***	.000***	.000***	.000***
Net realized gain (loss)	.000***	.000***	.000***	.000***	.000***	.000***
Total from investment operations	.000***	.000***	.000***	.000***	.000***	.000***
Less distributions from:						
Net investment income	(.000)***	(.000)***	(.000)***	(.000)***	(.000)***	(.000)***
Net asset value, end of period	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**
Total Return (%)[a]	.01**	.01	.01	.01	.01	.01
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	159	177	174	196	217	220
Ratio of expenses before expense reductions (%)	.49*	.49	.49	.45	.51	.46
Ratio of expenses after expense reductions (%)	.22*	.18	.20	.31	.25	.34
Ratio of net investment income (%)	.01*	.01	.01	.01	.01	.01

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

* Annualized

** Not annualized

*** Amount is less than $.0005.

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

Deutsche Money Market VIP (the "Fund") is a diversified series of Deutsche 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, 2015, the Fund held repurchase agreements with a gross value of $6,250,000. 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, 2014 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, 2015 through September 30, 2015, the Advisor has contractually agreed to waive its fee and/or reimburse certain operating expenses to the extent necessary to maintain the total annual 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. 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, 2015, the fee pursuant to the Investment Management Agreement aggregated $235,400, of which $226,677 was waived, resulting in an annualized effective rate of 0.01% 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, 2015, the Administration Fee was $82,597, of which $12,897 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, 2015, the amounts charged to the Fund by DSC aggregated $326, 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $4,627, all of which is unpaid.

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

C. Ownership of the Fund

At June 30, 2015, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 53%, 22% 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 the one-month 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, 2015.

E. Money Market Fund Reform

In July 2014, the SEC adopted money market fund reform intended 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 reforms by the specified compliance dates, with the latest being October 14, 2016. 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.

F. Additional Information

At a meeting on July 10, 2015, the Board approved changes to the Fund that would allow the Fund to operate as a government money market fund under the amendments to Rule 2a-7 under the Investment Company Act of 1940, as amended, that were adopted in July 2014 with final compliance dates ranging between July 2015 and October 2016. As currently structured, on the final compliance date for the Rule 2a-7 amendments, the Fund would be required to implement a floating net asset value and would be allowed, and in certain situations, required, to implement liquidity fees and/or redemption gates. As a government money market fund, the Fund will continue to seek to maintain a stable $1.00 net asset value. (Although the Fund will seek to maintain a $1.00 net asset value, there is no guarantee that it will be able do so and if the net asset value falls below $1.00, you would lose money.) The Fund will not be required to implement liquidity fees and/or redemption gates as a government money market fund. As defined in amended Rule 2a-7, a government money market fund is a fund that invests at least 99.5% of the fund's total assets in cash, government securities, and/or repurchase agreements that are collateralized by these same securities.

In order for the Fund to operate as a government money market fund, the Board approved revisions to the Fund's fundamental investment policy relating to concentration (the "Concentration Policy") such that the Fund would no longer be required to invest more than 25% of its total assets in obligations of banks and other financial institutions. If not revised, the current Concentration Policy would preclude the Fund from operating as a government money market fund. The revisions to the Concentration Policy are subject to approval by the shareholders of the Fund at a special shareholders' meeting expected to be held during the fourth quarter of 2015. No assurance can be given that shareholder approval will be obtained for the revisions to the Concentration Policy.

If the revisions to the Concentration Policy are approved by shareholders, the Board approved other changes for the Fund to operate as a government money market fund, including:

(i) The adoption of a principal investment strategy to invest at least 99.5% of the Fund's total assets in cash, government securities, and/or repurchase agreements that are collateralized by these same securities.

(ii) Name change from Deutsche Money Market VIP to Deutsche Government Money Market VIP.

(iii) A reduction in the management fee rate paid by the Fund to DIMA as set forth below:

Current Management Fee Rate Schedule		**Revised Management Fee Rate Schedule**	
Average Daily Assets	**Management Fee Rate**	**Average Daily Assets**	**Management Fee Rate**
First $500 Million	.285%	First $500 Million	.235%
Next $500 Million	.270%	Next $500 Million	.220%
Next $1 Billion	.255%	Next $1 Billion	.205%
Over $2 Million	.240%	Over $2 Million	.190%

If shareholders approve the revisions to the Concentration Policy, DIMA currently anticipates that the change to the Concentration Policy and other changes for the Fund to operate as a government money market fund will take effect on or about May 2, 2016. To ensure an orderly transition to a government money market fund, DIMA anticipates that it will begin to gradually implement changes to the Fund beginning in the first quarter of 2016. As a result, it is expected that the Fund gradually will allocate a larger percentage of its assets to government securities over time until it reaches its new allocation on or about May 2, 2016. Because the yields on government securities generally may be expected to be lower than the yields on comparable non-government securities, it should be expected that the Fund's yield may decrease as more assets are invested in government securities.

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, 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, 2015 to June 30, 2015).

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, 2015

Actual Fund Return	**Class A**
Beginning Account Value 1/1/15	$1,000.00
Ending Account Value 6/30/15	$1,000.05
Expenses Paid per $1,000*	$ 1.09

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/15	$1,000.00
Ending Account Value 6/30/15	$1,023.70
Expenses Paid per $1,000*	$ 1.10

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Money Market VIP	.22%

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

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

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Money Market VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

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

— In September 2014, 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 counsel to discuss contract review and other matters. In addition, the Independent Trustees were 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 ("DB"), 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 Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's 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 a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided by the Fee Consultant, the Board noted that for the one- and three-year periods ended December 31, 2013, the Fund's gross performance (Class A shares) was in the 2nd quartile 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, 2013). The Board noted that the Fund's Class A shares total (net) operating expenses were higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2013). 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 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 information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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 Deutsche U.S. mutual funds ("Deutsche 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 DIMA 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.

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 Deutsche 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 DIMA's 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 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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

Deutsche Asset
& Wealth Management

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

VS2MM-3 (R-028387-4 8/15)

Deutsche Asset
& Wealth Management

June 30, 2015

Semiannual Report

Deutsche Variable Series II

Deutsche 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.

Stocks may decline in value. Smaller and medium company stocks tend to be more volatile than large company stocks. 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

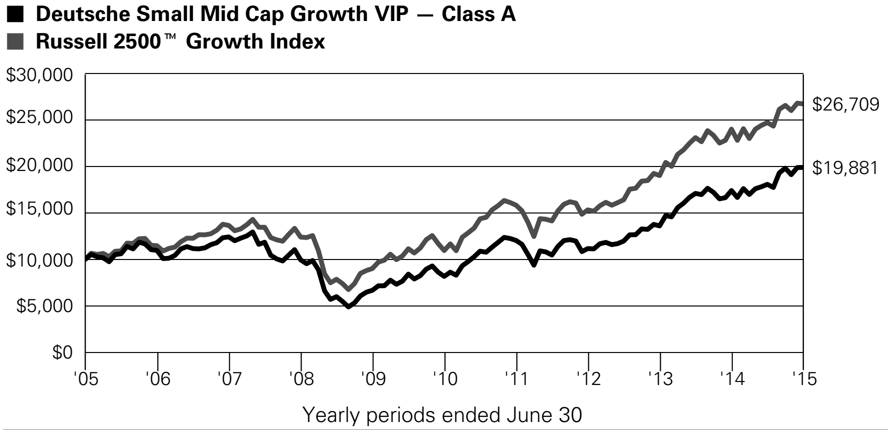
Performance Summary

June 30, 2015 (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, 2015 is 0.73% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Growth of an Assumed $10,000 Investment in 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	$11,011	$11,431	$17,817	$24,340	$19,881
	Average annual total return	10.11%	14.31%	21.23%	19.47%	7.11%
Russell 2500 Growth Index	Growth of $10,000	$10,809	$11,130	$17,430	$24,418	$26,709
	Average annual total return	8.09%	11.30%	20.35%	19.55%	10.32%

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)	**6/30/15**	**12/31/14**
Common Stocks	96%	97%
Cash Equivalents	3%	2%
Exchange-Traded Funds	1%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks, Convertible Preferred Stocks and Exchange-Traded Fund)	**6/30/15**	**12/31/14**
Health Care	22%	20%
Information Technology	20%	21%
Consumer Discretionary	19%	21%
Industrials	16%	18%
Financials	9%	7%
Consumer Staples	5%	5%
Materials	4%	4%
Energy	3%	3%
Telecommunication Services	2%	1%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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

	Shares	Value ($)
Common Stocks 95.6%		
Consumer Discretionary 18.0%		
Auto Components 3.1%		
American Axle & Manufacturing Holdings, Inc.*	69,987	1,463,428
Gentherm, Inc.*	39,810	2,185,967
Tenneco, Inc.*	32,782	1,882,998
		5,532,393
Hotels, Restaurants & Leisure 2.8%		
Fogo De Chao, Inc.*	39,523	915,353
Jack in the Box, Inc.	27,727	2,444,412
Panera Bread Co. "A"*	9,689	1,693,347
		5,053,112
Household Durables 2.7%		
iRobot Corp.* (a)	55,238	1,760,987
Jarden Corp.* (a)	43,965	2,275,189
Ryland Group, Inc.	17,756	823,346
		4,859,522
Leisure Products 1.1%		
Polaris Industries, Inc.	13,432	**1,989,413**
Media 1.0%		
Cinemark Holdings, Inc.	45,549	**1,829,703**
Specialty Retail 5.1%		
DSW, Inc. "A"	23,818	794,807
Outerwall, Inc. (a)	19,131	1,456,060
Penske Automotive Group, Inc.	30,944	1,612,492
The Children's Place, Inc.	27,136	1,774,966
Ulta Salon, Cosmetics & Fragrance, Inc.*	14,652	2,263,001
Urban Outfitters, Inc.* (a)	37,243	1,303,505
		9,204,831
Textiles, Apparel & Luxury Goods 2.2%		
Carter's, Inc.	15,730	1,672,099
Hanesbrands, Inc.	71,630	2,386,712
		4,058,811
Consumer Staples 4.2%		
Food & Staples Retailing 1.9%		
Casey's General Stores, Inc.	18,882	1,807,763
United Natural Foods, Inc.* (a)	25,962	1,653,260
		3,461,023
Food Products 2.3%		
Hain Celestial Group, Inc.*	33,643	2,215,728
The WhiteWave Foods Co.*	40,730	1,990,882
		4,206,610
Energy 2.9%		
Energy Equipment & Services 1.4%		
Core Laboratories NV (a)	6,327	721,531
Dril-Quip, Inc.*	10,626	799,606
RPC, Inc. (a)	75,179	1,039,726
		2,560,863
Oil, Gas & Consumable Fuels 1.5%		
Diamondback Energy, Inc.*	20,513	1,546,270
Gulfport Energy Corp.*	27,123	1,091,701
		2,637,971
Financials 8.9%		
Banks 4.9%		
FCB Financial Holdings, Inc. "A"*	27,482	873,928
Pinnacle Financial Partners, Inc.	34,294	1,864,565
Signature Bank*	11,972	1,752,581
South State Corp.	10,143	770,766
SVB Financial Group*	9,641	1,388,111
Talmer Bancorp., Inc. "A"	125,484	2,101,857
		8,751,808
Capital Markets 2.6%		
Lazard Ltd. "A"	30,574	1,719,482
Moelis & Co. "A"	40,248	1,155,520
Oaktree Capital Group LLC (a)	34,742	1,847,579
		4,722,581
Consumer Finance 1.4%		
PRA Group, Inc.* (a)	41,505	**2,586,177**
Health Care 21.4%		
Biotechnology 6.8%		
ACADIA Pharmaceuticals, Inc.* (a)	38,619	1,617,364
Alkermes PLC*	19,368	1,246,137
Neurocrine Biosciences, Inc.* (a)	30,555	1,459,307
OvaScience, Inc.* (a)	14,454	418,154
Puma Biotechnology, Inc.* (a)	4,544	530,512
Retrophin, Inc.*	94,125	3,120,244
Threshold Pharmaceuticals, Inc.* (a)	324,763	1,312,042
Ultragenyx Pharmaceutical, Inc.*	9,355	957,858
United Therapeutics Corp.*	9,903	1,722,627
		12,384,245
Health Care Equipment & Supplies 4.5%		
HeartWare International, Inc.*	13,132	954,565
NxStage Medical, Inc.*	60,494	864,157
Orthofix International NV*	27,740	918,749
SurModics, Inc.*	22,909	536,529
Thoratec Corp.*	51,731	2,305,650
Zeltiq Aesthetics, Inc.*	84,627	2,493,958
		8,073,608
Health Care Providers & Services 5.7%		
Centene Corp.*	39,388	3,166,795
Kindred Healthcare, Inc.	83,858	1,701,479
Molina Healthcare, Inc.* (a)	33,305	2,341,341
Providence Service Corp.*	68,595	3,037,387
		10,247,002
Life Sciences Tools & Services 1.0%		
PAREXEL International Corp.*	27,366	**1,759,908**
Pharmaceuticals 3.4%		
Flamel Technologies SA (ADR)*	205,594	4,356,537
Pacira Pharmaceuticals, Inc.*	25,809	1,825,212
		6,181,749
Industrials 15.8%		
Aerospace & Defense 1.9%		
DigitalGlobe, Inc.*	40,520	1,126,051
HEICO Corp. (a)	39,242	2,287,808
		3,413,859

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

	Shares	Value ($)
Airlines 0.8%		
JetBlue Airways Corp.* (a)	70,173	**1,456,792**
Building Products 1.5%		
A.O. Smith Corp.	15,641	1,125,839
Fortune Brands Home & Security, Inc.	35,691	1,635,362
		2,761,201
Commercial Services & Supplies 0.7%		
Team, Inc.*	31,684	**1,275,281**
Construction & Engineering 0.8%		
Primoris Services Corp.	71,608	**1,417,838**
Electrical Equipment 3.0%		
Acuity Brands, Inc.	14,862	2,674,863
AZZ, Inc.	33,222	1,720,899
Thermon Group Holdings, Inc.*	43,538	1,047,960
		5,443,722
Machinery 4.5%		
Altra Industrial Motion Corp. (a)	44,741	1,216,060
Manitowoc Co., Inc.	77,759	1,524,076
Middleby Corp.*	23,560	2,644,139
WABCO Holdings, Inc.*	22,322	2,761,678
		8,145,953
Professional Services 1.5%		
On Assignment, Inc.*	41,837	1,643,358
TriNet Group, Inc.*	43,566	1,104,398
		2,747,756
Road & Rail 1.1%		
Swift Transportation Co.*	82,338	**1,866,603**
Information Technology 19.3%		
Communications Equipment 1.0%		
Palo Alto Networks, Inc.*	10,739	**1,876,103**
Electronic Equipment, Instruments & Components 2.8%		
Cognex Corp.	61,616	2,963,730
IPG Photonics Corp.* (a)	25,891	2,205,266
		5,168,996
Internet Software & Services 2.5%		
CoStar Group, Inc.* (a)	12,425	2,500,655
LogMeIn, Inc.*	12,772	823,666
WebMD Health Corp.*	26,652	1,180,151
		4,504,472
IT Services 6.6%		
Broadridge Financial Solutions, Inc.	17,162	858,272
Cardtronics, Inc.*	69,019	2,557,154
MAXIMUS, Inc.	42,214	2,774,726
VeriFone Systems, Inc.*	66,138	2,246,046
Virtusa Corp.*	50,504	2,595,906
WEX, Inc.*	7,697	877,227
		11,909,331
Semiconductors & Semiconductor Equipment 1.0%		
Advanced Energy Industries, Inc.*	68,960	**1,895,711**
Software 4.9%		
Aspen Technology, Inc.*	46,290	2,108,509
Splunk, Inc.*	32,438	2,258,334
Tyler Technologies, Inc.*	17,690	2,288,732
Ultimate Software Group, Inc.*	12,959	2,129,682
		8,785,257
Technology Hardware, Storage & Peripherals 0.5%		
Super Micro Computer, Inc.*	29,307	**866,901**
Materials 4.2%		
Chemicals 2.3%		
A. Schulman, Inc. (a)	33,779	1,476,818
Huntsman Corp.	44,162	974,655
Minerals Technologies, Inc.	24,078	1,640,434
		4,091,907
Construction Materials 0.6%		
Eagle Materials, Inc.	13,523	**1,032,211**
Containers & Packaging 0.8%		
Berry Plastics Group, Inc.*	47,351	**1,534,172**
Metals & Mining 0.5%		
Constellium NV "A"*	79,368	**938,924**
Telecommunication Services 0.9%		
Wireless Telecommunication Services		
SBA Communications Corp. "A"*	14,172	**1,629,355**
Total Common Stocks (Cost $120,807,813)		**172,863,675**

Exchange-Traded Funds 1.4%

	Shares	Value ($)
SPDR S&P Biotech	6,000	1,513,440
SPDR S&P Oil & Gas Exploration & Production Fund (a)	23,491	1,096,090
Total Exchange-Traded Funds (Cost $1,808,254)		**2,609,530**

Convertible Preferred Stocks 0.2%

Health Care

	Shares	Value ($)
Providence Service Corp., 5.5% (Cost $283,300)	2,833	**283,101**

Securities Lending Collateral 16.5%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.16% (b) (c) (Cost $29,782,101)	29,782,101	**29,782,101**

Cash Equivalents 2.6%

	Shares	Value ($)
Central Cash Management Fund, 0.09% (b) (Cost $4,706,325)	4,706,325	**4,706,325**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $157,387,793)†	116.3	**210,244,732**
Other Assets and Liabilities, Net	(16.3)	**(29,493,218)**
Net Assets	100.0	**180,751,514**

* Non-income producing security.

† The cost for federal income tax purposes was $158,306,437. At June 30, 2015, net unrealized appreciation for all securities based on tax cost was $51,938,295. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $56,796,124 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $4,857,829.

(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, 2015 amounted to $29,418,609, which is 16.3% of net assets.

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

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

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

ADR: American Depositary Receipt

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, 2015 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)	$172,863,675	$ —	$ —	$172,863,675
Exchange-Traded Funds	2,609,530	—	—	2,609,530
Convertible Preferred Stocks	—	—	283,101	283,101
Short-Term Investments (d)	34,488,426	—	—	34,488,426
Total	**$209,961,631**	**$ —**	**$ 283,101**	**$210,244,732**

There have been no transfers between fair value measurement levels during the period ended June 30, 2015.

(d) See Investment Portfolio for additional detailed categorizations.

Statement of Assets and Liabilities

as of June 30, 2015 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $122,899,367) — including $29,418,609 of securities loaned	$	175,756,306
Investment in Daily Assets Fund Institutional (cost $29,782,101)*		29,782,101
Investment in Central Cash Management Fund (cost $4,706,325)		4,706,325
Total investments in securities, at value (cost $157,387,793)		210,244,732
Receivable for investments sold		731,337
Receivable for Fund shares sold		205
Dividends receivable		21,284
Interest receivable		12,024
Other assets		1,747
Total assets		211,011,329
Liabilities		
Payable upon return of securities loaned		29,782,101
Payable for investments purchased		184,446
Payable for Fund shares redeemed		128,909
Accrued management fee		83,169
Accrued Trustees' fees		1,009
Other accrued expenses and payables		80,181
Total liabilities		30,259,815
Net assets, at value	**$**	**180,751,514**
Net Assets Consist of		
Net investment loss		(171,786)
Net unrealized appreciation (depreciation) on investments		52,856,939
Accumulated net realized gain (loss)		13,030,503
Paid-in capital		115,035,858
Net assets, at value	**$**	**180,751,514**
Class A		
Net Asset Value, offering and redemption price per share ($180,751,514 ÷ 7,784,820 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**23.22**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2015 (Unaudited)

Investment Income		
Income:		
Dividends	$	399,111
Income distributions — Central Cash Management Fund		1,131
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		73,615
Total income		473,857
Expenses:		
Management fee		490,181
Administration fee		89,124
Services to shareholders		1,083
Custodian fee		5,731
Professional fees		36,334
Reports to shareholders		15,045
Trustees' fees and expenses		4,269
Other		3,876
Total expenses		645,643
Net investment income (loss)		**(171,786)**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		14,387,092
Change in net unrealized appreciation (depreciation) on investments		2,764,733
Net gain (loss)		**17,151,825**
Net increase (decrease) in net assets resulting from operations	**$**	**16,980,039**

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, 2015 (Unaudited)	Year Ended December 31, 2014
Operations:		
Net investment income (loss)	$ (171,786)	$ (196,065)
Net realized gain (loss)	14,387,092	20,390,112
Change in net unrealized appreciation (depreciation)	2,764,733	(10,889,918)
Net increase (decrease) in net assets resulting from operations	16,980,039	9,304,129
Distributions to shareholders from:		
Net realized gains		
Class A	(13,914,292)	—
Total distributions	(13,914,292)	—
Fund share transactions:		
Class A		
Proceeds from shares sold	4,939,188	5,733,576
Reinvestment of distributions	13,914,292	—
Cost of shares redeemed	(13,054,640)	(30,428,185)
Net increase (decrease) in net assets from Class A share transactions	5,798,840	(24,694,609)
Increase (decrease) in net assets	8,864,587	(15,390,480)
Net assets at beginning of period	171,886,927	187,277,407
Net assets at end of period (including net investment loss and undistributed net investment income of $171,786 and $0, respectively)	**$ 180,751,514**	**$ 171,886,927**

Other Information		
Class A		
Shares outstanding at beginning of period	7,527,702	8,676,171
Shares sold	203,836	261,454
Shares issued to shareholders in reinvestment of distributions	604,706	—
Shares redeemed	(551,424)	(1,409,923)
Net increase (decrease) in Class A shares	257,118	(1,148,469)
Shares outstanding at end of period	**7,784,820**	**7,527,702**

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

Financial Highlights

Class A	Six Months Ended 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$22.83**	**$21.59**	**$15.14**	**$13.24**	**$13.85**	**$10.70**
Income (loss) from investment operations:						
Net investment income (loss)[a]	(.02)	(.02)	(.04)	.02	(.03)	(.01)
Net realized and unrealized gain (loss)	2.30	1.26	6.51	1.88	(.50)	3.16
Total from investment operations	2.28	1.24	6.47	1.90	(.53)	3.15
Less distributions from:						
Net investment income	—	—	(.02)	—	(.08)	—
Net realized gains	(1.89)	—	—	—	—	—
Total distributions	(1.89)	—	(.02)	—	(.08)	—
Net asset value, end of period	**$23.22**	**$22.83**	**$21.59**	**$15.14**	**$13.24**	**$13.85**
Total Return (%)	10.11**	5.74	42.78	14.35	(3.91)	29.44
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	181	172	187	145	147	88
Ratio of expenses (%)	.72*	.73	.72	.74	.73	.78
Ratio of net investment income (loss) (%)	(.19)*	(.11)	(.22)	.11	(.23)	(.12)
Portfolio turnover rate (%)	24**	44	56	57	84	64

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 (the "Fund") is a diversified series of Deutsche 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, 2015, 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, 2014, the Fund had a net tax basis capital loss carryforward of approximately $405,000 of pre-enactment losses, inherited from its mergers with DWS Mid Cap Growth VIP, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($405,000), the expiration date, 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, 2014 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, 2015, purchases and sales of investment transactions (excluding short-term investments) aggregated $41,056,726 and $50,445,418, 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, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annualized rate (exclusive of any applicable waivers/reimbursements) of 0.55% of the Fund's average daily net assets.

For the period from January 1, 2015 through September 30, 2015, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A at 0.98%.

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, 2015, the Administration Fee was $89,124, of which $15,122 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, 2015, the amounts charged to the Fund by DSC aggregated $193, of which $98 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $5,007, of which $4,710 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 1940 Act, 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, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $6,402.

D. Ownership of the Fund

At June 30, 2015, 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 21%.

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 the one-month 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, 2015.

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, 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, 2015 to June 30, 2015).

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, 2015

Actual Fund Return	**Class A**
Beginning Account Value 1/1/15	$1,000.00
Ending Account Value 6/30/15	$1,101.10
Expenses Paid per $1,000*	$ 3.75
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/15	$1,000.00
Ending Account Value 6/30/15	$1,021.22
Expenses Paid per $1,000*	$ 3.61

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Small Mid Cap Growth VIP	.72%

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

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

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to 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 Deutsche Small Mid Cap Growth VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

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

— In September 2014, 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 counsel to discuss contract review and other matters. In addition, the Independent Trustees were 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 ("DB"), 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 Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's 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 index(es) 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 a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 1st 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). 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, 2013.

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, 2013). 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, 2013, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). 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 that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. 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 information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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 Deutsche U.S. mutual funds ("Deutsche 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 DIMA 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.

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 Deutsche 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 DIMA's 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 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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

Deutsche Asset
& Wealth Management

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

VS2SMCG-3 (R-028388-4 8/15)

Deutsche Asset
& Wealth Management

June 30, 2015

Semiannual Report

Deutsche Variable Series II

Deutsche 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.

Stocks may decline in value. Smaller and medium company stocks tend to be more volatile than large company stocks. Any fund that focuses in a particular segment of the market or region of the world will generally be more volatile than a fund that invests more broadly. 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

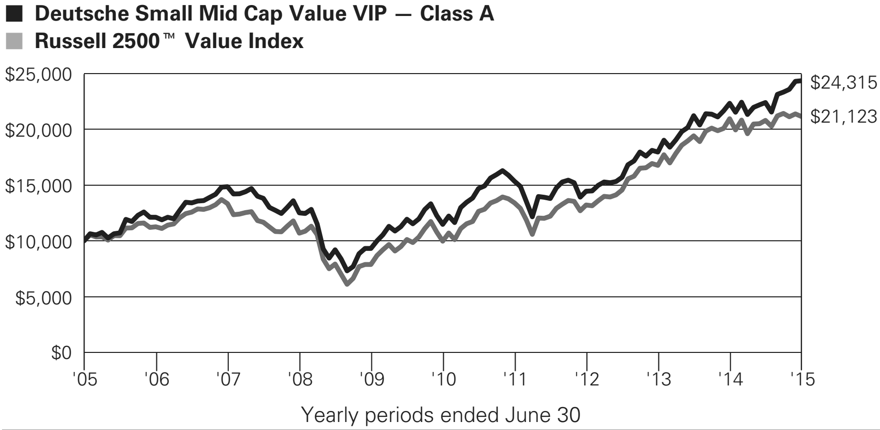
Performance Summary

June 30, 2015 (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, 2015 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	$10,872	$10,902	$16,846	$21,217	$24,315
	Average annual total return	8.72%	9.02%	18.99%	16.24%	9.29%
Russell 2500 Value Index	Growth of $10,000	$10,171	$10,099	$16,011	$21,220	$21,123
	Average annual total return	1.71%	0.99%	16.99%	16.24%	7.76%

Deutsche Small Mid Cap Value VIP		6-Month‡	1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,858	$10,870	$16,660	$20,853	$23,469
	Average annual total return	8.58%	8.70%	18.55%	15.83%	8.91%
Russell 2500 Value Index	Growth of $10,000	$10,171	$10,099	$16,011	$21,220	$21,123
	Average annual total return	1.71%	0.99%	16.99%	16.24%	7.76%

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)	**6/30/15**	**12/31/14**
Common Stocks	96%	96%
Cash Equivalents	4%	4%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**6/30/15**	**12/31/14**
Financials	26%	23%
Industrials	22%	20%
Information Technology	21%	21%
Consumer Discretionary	13%	12%
Materials	10%	11%
Health Care	4%	6%
Energy	4%	5%
Consumer Staples	—	2%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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 95.5%		
Consumer Discretionary 12.6%		
Auto Components 2.4%		
Visteon Corp.*	50,570	**5,308,838**
Diversified Consumer Services 1.1%		
Ascent Capital Group, Inc. "A"*	59,351	**2,536,662**
Hotels, Restaurants & Leisure 1.0%		
The Wendy's Co. (a)	204,957	**2,311,915**
Household Durables 2.6%		
Newell Rubbermaid, Inc.	141,244	**5,806,541**
Specialty Retail 3.4%		
CST Brands, Inc.	86,819	3,391,150
Ross Stores, Inc.	90,066	4,378,108
		7,769,258
Textiles, Apparel & Luxury Goods 2.1%		
Hanesbrands, Inc.	142,674	**4,753,898**
Energy 3.9%		
Energy Equipment & Services 1.3%		
Superior Energy Services, Inc.	138,534	**2,914,756**
Oil, Gas & Consumable Fuels 2.6%		
Cimarex Energy Co.	29,351	3,237,709
QEP Resources, Inc.	140,350	2,597,878
		5,835,587
Financials 24.9%		
Banks 10.9%		
Capital Bank Financial Corp. "A"*	150,950	4,388,117
Great Western Bancorp., Inc.	129,463	3,121,353
Investors Bancorp., Inc.	432,051	5,314,227
KeyCorp	300,171	4,508,568
OFG Bancorp.	263,398	2,810,457
Sterling Bancorp.	311,402	4,577,609
		24,720,331
Capital Markets 2.2%		
Lazard Ltd. "A"	88,545	**4,979,771**
Consumer Finance 2.8%		
Synchrony Financial* (a)	190,536	**6,274,351**
Insurance 4.7%		
CNO Financial Group, Inc.	346,036	6,349,761
Reinsurance Group of America, Inc.	46,427	4,404,529
		10,754,290
Real Estate Investment Trusts 1.6%		
Plum Creek Timber Co., Inc. (REIT)	86,738	**3,518,961**
Thrifts & Mortgage Finance 2.7%		
Walker & Dunlop, Inc.*	230,333	**6,159,104**
Health Care 4.3%		
Health Care Providers & Services 2.5%		
HealthSouth Corp.	126,221	**5,813,739**
Life Sciences Tools & Services 1.8%		
PerkinElmer, Inc.	76,297	**4,016,274**

	Shares	Value ($)
Industrials 20.6%		
Aerospace & Defense 1.4%		
Curtiss-Wright Corp.	43,639	**3,161,209**
Air Freight & Logistics 1.8%		
Forward Air Corp.	77,160	**4,032,382**
Commercial Services & Supplies 3.0%		
Covanta Holding Corp.	209,925	4,448,311
The Brink's Co.	78,274	2,303,604
		6,751,915
Electrical Equipment 2.3%		
The Babcock & Wilcox Co.	158,183	**5,188,402**
Machinery 8.0%		
Harsco Corp.	220,691	3,641,401
ITT Corp.	78,773	3,295,862
Stanley Black & Decker, Inc.	50,554	5,320,303
Xylem, Inc.	156,181	5,789,630
		18,047,196
Marine 1.0%		
Kirby Corp.*	29,551	**2,265,380**
Professional Services 1.0%		
FTI Consulting, Inc.*	56,362	**2,324,369**
Trading Companies & Distributors 2.1%		
AerCap Holdings NV*	104,598	**4,789,542**
Information Technology 19.8%		
Communications Equipment 2.1%		
Harris Corp.	60,868	**4,681,358**
Electronic Equipment, Instruments & Components 7.8%		
Belden, Inc.	62,616	5,086,297
Dolby Laboratories, Inc. "A"	98,179	3,895,743
Rogers Corp.*	65,693	4,344,935
Zebra Technologies Corp. "A"*	39,418	4,377,369
		17,704,344
IT Services 6.0%		
Convergys Corp. (a)	271,794	6,928,029
Global Payments, Inc.	21,928	2,268,452
NeuStar, Inc. "A"* (a)	150,621	4,399,639
		13,596,120
Software 3.9%		
ACI Worldwide, Inc.*	96,044	2,359,801
Verint Systems, Inc.*	106,317	6,458,226
		8,818,027
Materials 9.4%		
Chemicals 5.4%		
Celanese Corp. "A"	60,868	4,375,192
H.B. Fuller Co.	106,579	4,329,239
Minerals Technologies, Inc.	51,888	3,535,130
		12,239,561
Containers & Packaging 1.8%		
Sealed Air Corp.	78,632	**4,040,112**
Metals & Mining 2.2%		
Materion Corp.	143,173	**5,046,848**
Total Common Stocks (Cost $181,354,312)		**216,161,041**

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

	Shares	Value ($)
Securities Lending Collateral 7.1%		
Daily Assets Fund Institutional, 0.16% (b) (c) (Cost $15,997,975)	15,997,975	**15,997,975**
Cash Equivalents 3.7%		
Central Cash Management Fund, 0.09% (b) (Cost $8,398,294)	8,398,294	**8,398,294**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $205,750,581)†	106.3	**240,557,310**
Other Assets and Liabilities, Net	(6.3)	**(14,343,976)**
Net Assets	100.0	**226,213,334**

* Non-income producing security.

† The cost for federal income tax purposes was $205,737,656. At June 30, 2015, net unrealized appreciation for all securities based on tax cost was $34,819,654. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $43,677,777 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $8,858,123.

(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, 2015 amounted to $15,756,851, which is 7.0% 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.

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, 2015 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)	$216,161,041	$ —	$ —	$216,161,041
Short-Term Investments (d)	24,396,269	—	—	24,396,269
Total	**$240,557,310**	**$ —**	**$ —**	**$240,557,310**

There have been no transfers between fair value measurement levels during the period ended June 30, 2015.

(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, 2015 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $181,354,312) — including $15,756,851 of securities loaned	$	216,161,041
Investment in Daily Assets Fund Institutional (cost $15,997,975)*		15,997,975
Investment in Central Cash Management Fund (cost $8,398,294)		8,398,294
Total investments in securities, at value (cost $205,750,581)		240,557,310
Receivable for investments sold		2,367,837
Receivable for Fund shares sold		52,599
Dividends receivable		144,067
Interest receivable		25,108
Other assets		1,985
Total assets		243,148,906
Liabilities		
Payable upon return of securities loaned		15,997,975
Payable for investments purchased		565,911
Payable for Fund shares redeemed		129,430
Accrued management fee		123,249
Accrued Trustees' fees		1,609
Other accrued expenses and payables		117,398
Total liabilities		16,935,572
Net assets, at value	**$**	**226,213,334**
Net Assets Consist of		
Undistributed net investment income		446,766
Net unrealized appreciation (depreciation) on:		
Investments		34,806,729
Accumulated net realized gain (loss)		12,206,767
Paid-in capital		178,753,072
Net assets, at value	**$**	**226,213,334**
Class A		
Net Asset Value, offering and redemption price per share ($210,137,692 ÷ 11,872,563 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**17.70**
Class B		
Net Asset Value, offering and redemption price per share ($16,075,642 ÷ 907,895 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**17.71**

* Represents collateral on securities loaned.

Statement of Operations

for the six months ended June 30, 2015 (Unaudited)

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $2,199)	$	1,226,349
Income distributions — Central Cash Management Fund		3,511
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		128,360
Total income		1,358,220
Expenses:		
Management fee		720,742
Administration fee		110,883
Services to shareholders		3,143
Record keeping fees (Class B)		8,939
Distribution service fee (Class B)		20,541
Custodian fee		4,162
Professional fees		33,407
Reports to shareholders		25,140
Trustees' fees and expenses		5,446
Other		4,193
Total expenses		936,596
Net investment income (loss)		**421,624**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		12,218,110
Change in net unrealized appreciation (depreciation) on investments		6,023,569
Net gain (loss)		**18,241,679**
Net increase (decrease) in net assets resulting from operations	**$**	**18,663,303**

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, 2015 (Unaudited)	Year Ended December 31, 2014
Operations:		
Net investment income (loss)	$ 421,624	$ 687,058
Net realized gain (loss)	12,218,110	18,607,552
Change in net unrealized appreciation (depreciation)	6,023,569	(7,308,422)
Net increase (decrease) in net assets resulting from operations	18,663,303	11,986,188
Distributions to shareholders from:		
Net investment income:		
Class A	(593,081)	(1,782,045)
Class B	—	(85,579)
Net realized gains:		
Class A	(17,173,555)	(1,065,847)
Class B	(1,373,376)	(91,018)
Total distributions	(19,140,012)	(3,024,489)
Fund share transactions:		
Class A		
Proceeds from shares sold	4,848,045	7,581,114
Reinvestment of distributions	17,766,636	2,847,892
Payments for shares redeemed	(17,132,769)	(53,470,098)
Net increase (decrease) in net assets from Class A share transactions	5,481,912	(43,041,092)
Class B		
Proceeds from shares sold	1,329,787	2,985,548
Reinvestment of distributions	1,373,376	176,597
Payments for shares redeemed	(3,573,450)	(6,702,666)
Net increase (decrease) in net assets from Class B share transactions	(870,287)	(3,540,521)
Increase (decrease) in net assets	4,134,916	(37,619,914)
Net assets at beginning of period	222,078,418	259,698,332
Net assets at end of period (including undistributed net investment income of $446,766 and $618,223, respectively)	**$ 226,213,334**	**$ 222,078,418**

Other Information		
Class A		
Shares outstanding at beginning of period	11,531,437	14,042,897
Shares sold	268,720	442,556
Shares issued to shareholders in reinvestment of distributions	1,025,787	170,839
Shares redeemed	(953,381)	(3,124,855)
Net increase (decrease) in Class A shares	341,126	(2,511,460)
Shares outstanding at end of period	**11,872,563**	**11,531,437**
Class B		
Shares outstanding at beginning of period	953,703	1,160,889
Shares sold	73,566	174,632
Shares issued to shareholders in reinvestment of distributions	79,203	10,581
Shares redeemed	(198,577)	(392,399)
Net increase (decrease) in Class B shares	(45,808)	(207,186)
Shares outstanding at end of period	**907,895**	**953,703**

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

Financial Highlights

Class A

Class A	Six Months Ended 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$17.79**	**$17.08**	**$12.78**	**$11.36**	**$12.21**	**$10.04**
Income (loss) from investment operations:						
Net investment income[a]	.04	.05	.12	.14	.13	.12
Net realized and unrealized gain (loss)	1.47	.88	4.35	1.42	(.85)	2.19
Total from investment operations	1.51	.93	4.47	1.56	(.72)	2.31
Less distributions from:						
Net investment income	(.05)	(.14)	(.17)	(.14)	(.13)	(.14)
Net realized gains	(1.55)	(.08)	—	—	—	—
Total distributions	(1.60)	(.22)	(.17)	(.14)	(.13)	(.14)
Net asset value, end of period	**$17.70**	**$17.79**	**$17.08**	**$12.78**	**$11.36**	**$12.21**
Total Return (%)	8.72**	5.53	35.24	13.77	(6.08)	23.07
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	210	205	240	219	216	247
Ratio of expenses (%)	.82*	.82	.82	.82	.81	.82
Ratio of net investment income (%)	.41*	.32	.81	1.18	1.08	1.14
Portfolio turnover rate (%)	16**	34	115	11	36	38

a Based on average shares outstanding during the period.

* Annualized

** Not annualized

Class B

Class B	Six Months Ended 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$17.77**	**$17.07**	**$12.78**	**$11.36**	**$12.20**	**$10.03**
Income (loss) from investment operations:						
Net investment income[a]	.00[b]	(.01)	.07	.10	.09	.08
Net realized and unrealized gain (loss)	1.49	.87	4.34	1.42	(.85)	2.19
Total from investment operations	1.49	.86	4.41	1.52	(.76)	2.27
Less distributions from:						
Net investment income	—	(.08)	(.12)	(.10)	(.08)	(.10)
Net realized gains	(1.55)	(.08)	—	—	—	—
Total distributions	(1.55)	(.16)	(.12)	(.10)	(.08)	(.10)
Net asset value, end of period	**$17.71**	**$17.77**	**$17.07**	**$12.78**	**$11.36**	**$12.20**
Total Return (%)	8.58**	5.09	34.70	13.38	(6.33)	22.66
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	16	17	20	17	20	26
Ratio of expenses (%)	1.18*	1.17	1.17	1.16	1.15	1.17
Ratio of net investment income (%)	.04*	(.04)	.45	.81	.74	.79
Portfolio turnover rate (%)	16**	34	115	11	36	38

a Based on average shares outstanding during the period.

b Amount is less than $.005.

* Annualized

** Not annualized

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

Deutsche Small Mid Cap Value VIP (the "Fund") is a diversified series of Deutsche 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.

As of June 30, 2015, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

Taxes. The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies and to distribute all of its taxable income to its shareholders.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 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, 2015, purchases and sales of investment transactions (excluding short-term investments) aggregated $33,116,868 and $49,079,547, 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, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annualized rate (exclusive of any applicable waivers/reimbursements) of 0.65% of the Fund's average daily net assets.

For the period from January 1, 2015 through September 30, 2015, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.84%
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, 2015, the Administration Fee was $110,883, of which $18,961 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, 2015, the amounts charged to the Fund by DSC were as follows:

Service to Shareholders	Total Aggregated	Unpaid at June 30, 2015
Class A	$ 311	$ 166
Class B	283	138
	$ 594	**$ 304**

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, 2015, the Distribution Service Fee aggregated $20,541, of which $3,469 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $6,275, of which $5,570 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and 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 1940 Act, 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, 2015, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 59% and 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 34%, 25% and 18%.

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 the one-month 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, 2015.

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, 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, 2015 to June 30, 2015).

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, 2015

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$1,087.20	$1,085.80
Expenses Paid per $1,000*	$ 4.24	$ 6.10
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 1/1/15	$1,000.00	$1,000.00
Ending Account Value 6/30/15	$1,020.73	$1,018.94
Expenses Paid per $1,000*	$ 4.11	$ 5.91

* 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%	1.18%

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.

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 Deutsche Small Mid Cap Value VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

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

— In September 2014, 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 counsel to discuss contract review and other matters. In addition, the Independent Trustees were 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 ("DB"), 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 Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's 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 index(es) 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 a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 2nd 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, 2013. 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 2013. The Board recognized the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche 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, 2013). 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, 2013, 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 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 that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. 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 information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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 Deutsche U.S. mutual funds ("Deutsche 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 DIMA 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.

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 Deutsche 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 DIMA's 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 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

VS2SMCV-3 (R-028381-4 8/15)

Deutsche Asset
& Wealth Management

June 30, 2015

Semiannual Report

Deutsche Variable Series II

Deutsche 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, credit, liquidity and market risks to varying degrees. 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 foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Emerging markets tend to be more volatile than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. 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.

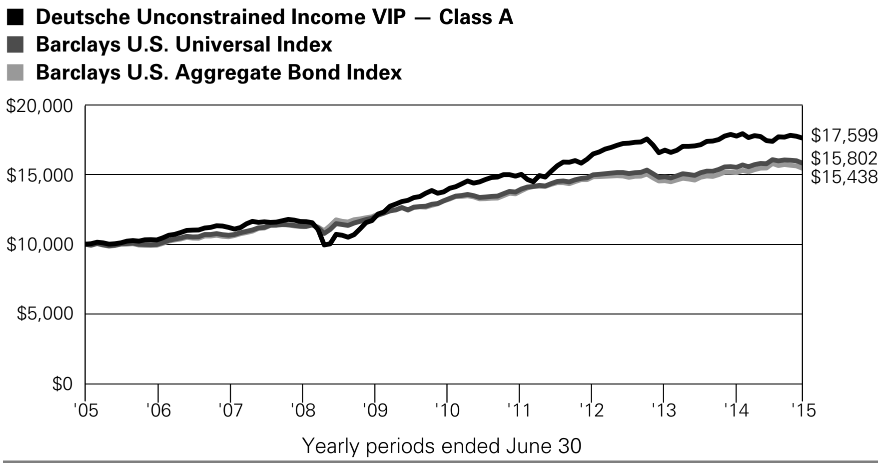
Performance Summary

June 30, 2015 (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, 2015 is 1.10% 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 unmanaged 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	$10,107	$9,852	$10,945	$12,807	$17,599
	Average annual total return	1.07%	–1.48%	3.05%	5.07%	5.82%
Barclays U.S. Universal Index	Growth of $10,000	$10,030	$10,161	$10,716	$12,055	$15,802
	Average annual total return	0.30%	1.61%	2.33%	3.81%	4.68%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$9,990	$10,186	$10,558	$11,790	$15,438
	Average annual total return	–0.10%	1.86%	1.83%	3.35%	4.44%

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)	**6/30/15**	**12/31/14**
Corporate Bonds	45%	52%
Government & Agency Obligations	16%	13%
Cash Equivalents	14%	17%
Mortgage-Backed Securities Pass-Throughs	9%	2%
Collateralized Mortgage Obligations	9%	3%
Loan Participations and Assignments	3%	4%
Municipal Bonds and Notes	2%	2%
Asset-Backed	1%	1%
Commercial Mortgage-Backed Securities	1%	1%
Exchange-Traded Fund	—	5%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	**6/30/15**	**12/31/14**
AAA	25%	8%
AA	1%	4%
A	5%	5%
BBB	16%	19%
BB	28%	32%
B	17%	19%
CCC or Below	4%	5%
Not Rated	4%	8%
	100%	100%

Interest Rate Sensitivity	**6/30/15**	**12/31/14**
Effective Maturity	7.6 years	5.7 years
Effective Duration	4.2 years	3.0 years

The quality ratings represent the higher of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's and S&P represent their opinions as to the quality of the securities they rate. Credit quality measures a bond issuer's ability to repay interest and principal in a timely manner. Ratings are relative and subjective and are not absolute standards of quality. Credit quality does not remove market risk and is subject to change.

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

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

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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 49.4%		
Consumer Discretionary 5.9%		
Ally Financial, Inc.:		
3.25%, 2/13/2018	35,000	34,781
4.125%, 3/30/2020 (b)	35,000	34,934
AMC Entertainment, Inc., 5.875%, 2/15/2022	30,000	30,450
AMC Networks, Inc., 7.75%, 7/15/2021	15,000	16,200
AmeriGas Finance LLC:		
6.75%, 5/20/2020	70,000	73,675
7.0%, 5/20/2022	60,000	63,600
Apex Tool Group LLC, 144A, 7.0%, 2/1/2021	30,000	26,700
Ashtead Capital, Inc., 144A, 6.5%, 7/15/2022	45,000	47,700
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	50,000	46,500
Avis Budget Car Rental LLC:		
144A, 5.25%, 3/15/2025	60,000	56,325
5.5%, 4/1/2023	30,000	29,625
Bed Bath & Beyond, Inc.:		
4.915%, 8/1/2034	40,000	39,039
5.165%, 8/1/2044	50,000	49,638
Block Communications, Inc., 144A, 7.25%, 2/1/2020	65,000	66,300
Boyd Gaming Corp., 6.875%, 5/15/2023	20,000	20,500
Cablevision Systems Corp., 5.875%, 9/15/2022	15,000	14,550
CCO Holdings LLC:		
144A, 5.125%, 5/1/2023	50,000	48,625
144A, 5.375%, 5/1/2025	35,000	34,081
144A, 5.875%, 5/1/2027	60,000	58,575
7.0%, 1/15/2019	9,000	9,349
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	89,000	80,823
144A, 6.375%, 9/15/2020	125,000	124,156
Clear Channel Worldwide Holdings, Inc.:		
Series A, 6.5%, 11/15/2022	15,000	15,375
Series A, 7.625%, 3/15/2020	20,000	20,650
Series B, 7.625%, 3/15/2020	185,000	192,862
Cogeco Cable, Inc., 144A, 4.875%, 5/1/2020	5,000	5,075
Crown Media Holdings, Inc., 10.5%, 7/15/2019	55,000	58,094
CSC Holdings LLC, 5.25%, 6/1/2024 (b)	55,000	52,800
Dana Holding Corp., 5.5%, 12/15/2024	25,000	24,563
DISH DBS Corp.:		
4.25%, 4/1/2018	40,000	40,700
5.0%, 3/15/2023	50,000	46,250
6.75%, 6/1/2021	10,000	10,425
7.125%, 2/1/2016	155,000	159,069
Family Tree Escrow LLC:		
144A, 5.25%, 3/1/2020	50,000	52,312
144A, 5.75%, 3/1/2023	35,000	36,575
Fiat Chrysler Automobiles NV, 144A, 4.5%, 4/15/2020	45,000	44,775
General Motors Financial Co., Inc., 3.25%, 5/15/2018	15,000	15,341
Global Partners LP, 144A, 7.0%, 6/15/2023	30,000	29,475
Group 1 Automotive, Inc., 5.0%, 6/1/2022 (b)	60,000	59,700
HD Supply, Inc.:		
7.5%, 7/15/2020	15,000	15,863
11.5%, 7/15/2020	45,000	51,975
Hertz Corp., 6.75%, 4/15/2019	50,000	51,595
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	20,000	21,000
iHeartCommunications, Inc.:		
9.0%, 12/15/2019 (b)	70,000	66,710
11.25%, 3/1/2021	40,000	38,850
Jo-Ann Stores Holdings, Inc., 144A, 9.75%, 10/15/2019	25,000	22,375
Live Nation Entertainment, Inc.:		
144A, 5.375%, 6/15/2022	5,000	5,000
144A, 7.0%, 9/1/2020	50,000	53,125
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	30,000	29,888
Mediacom Broadband LLC:		
5.5%, 4/15/2021	5,000	4,875
6.375%, 4/1/2023	65,000	65,000
Mediacom LLC, 7.25%, 2/15/2022	20,000	20,950
MGM Resorts International:		
6.75%, 10/1/2020 (b)	76,000	80,560
8.625%, 2/1/2019	85,000	96,050
New Red Finance, Inc., 144A, 4.625%, 1/15/2022	15,000	14,775
Nielsen Finance LLC, 144A, 5.0%, 4/15/2022	20,000	19,600
Numericable-SFR, 144A, 4.875%, 5/15/2019	70,000	69,300
Pinnacle Entertainment, Inc., 6.375%, 8/1/2021	20,000	21,225
Quebecor Media, Inc., 5.75%, 1/15/2023	30,000	29,925
Sabre GLBL, Inc., 144A, 5.375%, 4/15/2023	5,000	4,925
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021	15,000	15,150
Serta Simmons Holdings LLC, 144A, 8.125%, 10/1/2020	35,000	36,925
Sirius XM Radio, Inc., 144A, 5.875%, 10/1/2020	30,000	30,750
Spectrum Brands, Inc., 144A, 5.75%, 7/15/2025	15,000	15,225
Springs Industries, Inc., 6.25%, 6/1/2021	35,000	34,212
Starz LLC, 5.0%, 9/15/2019	25,000	25,313
Suburban Propane Partners LP, 5.75%, 3/1/2025	20,000	19,950
Time Warner Cable, Inc., 7.3%, 7/1/2038	35,000	39,435
Time Warner, Inc.:		
3.6%, 7/15/2025	30,000	29,180
4.85%, 7/15/2045	10,000	9,701
UCI International, Inc., 8.625%, 2/15/2019	20,000	17,800
Viking Cruises Ltd.:		
144A, 6.25%, 5/15/2025	30,000	29,775
144A, 8.5%, 10/15/2022	30,000	33,300
		2,990,449

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

	Principal Amount ($)(a)	Value ($)
Consumer Staples 3.2%		
Anadolu Efes Biracilik Ve Malt Sanayii AS, 144A, 3.375%, 11/1/2022	250,000	221,430
Cencosud SA, 144A, 5.5%, 1/20/2021	250,000	262,673
Chiquita Brands International, Inc., 7.875%, 2/1/2021	11,000	11,853
Cott Beverages, Inc.:		
5.375%, 7/1/2022	60,000	58,200
144A, 6.75%, 1/1/2020	25,000	25,938
FAGE Dairy Industry SA, 144A, 9.875%, 2/1/2020	85,000	88,613
HJ Heinz Co.:		
144A, 3.95%, 7/15/2025 (c)	10,000	10,055
144A, 5.2%, 7/15/2045 (c)	5,000	5,124
JBS Investments GmbH:		
144A, 7.25%, 4/3/2024	70,000	72,450
144A, 7.75%, 10/28/2020	200,000	217,500
JBS U.S.A. LLC:		
144A, 5.75%, 6/15/2025	25,000	24,711
144A, 7.25%, 6/1/2021	80,000	84,300
144A, 8.25%, 2/1/2020	25,000	26,500
Marfrig Overseas Ltd., 144A, 9.5%, 5/4/2020	200,000	204,340
Minerva Luxembourg SA, 144A, 12.25%, 2/10/2022	200,000	220,100
Pilgrim's Pride Corp., 144A, 5.75%, 3/15/2025	25,000	25,250
Post Holdings, Inc., 144A, 6.75%, 12/1/2021	15,000	15,000
Reynolds American, Inc.:		
4.45%, 6/12/2025	10,000	10,188
5.85%, 8/15/2045	10,000	10,489
Roundy's Supermarkets, Inc., 144A, 10.25%, 12/15/2020	10,000	8,500
Smithfield Foods, Inc., 6.625%, 8/15/2022	2,000	2,135
The WhiteWave Foods Co., 5.375%, 10/1/2022	30,000	31,650
		1,636,999
Energy 9.1%		
Afren PLC, 144A, 10.25%, 4/8/2019*	140,000	61,600
Antero Resources Corp.:		
5.125%, 12/1/2022	45,000	42,525
5.375%, 11/1/2021	35,000	33,600
144A, 5.625%, 6/1/2023	25,000	24,156
Baytex Energy Corp.:		
144A, 5.125%, 6/1/2021	10,000	9,375
144A, 5.625%, 6/1/2024	15,000	13,913
Berry Petroleum Co., LLC:		
6.375%, 9/15/2022	30,000	23,400
6.75%, 11/1/2020	140,000	110,600
California Resources Corp.:		
5.0%, 1/15/2020	20,000	17,600
5.5%, 9/15/2021	43,000	37,419
6.0%, 11/15/2024 (b)	15,000	12,900
Carrizo Oil & Gas, Inc., 6.25%, 4/15/2023	30,000	30,075
Chaparral Energy, Inc., 7.625%, 11/15/2022	20,000	14,400

	Principal Amount ($)(a)	Value ($)
Chesapeake Energy Corp.:		
5.75%, 3/15/2023 (b)	75,000	67,875
6.125%, 2/15/2021	5,000	4,700
6.625%, 8/15/2020	30,000	29,250
Concho Resources, Inc., 5.5%, 4/1/2023	70,000	70,000
Crestwood Midstream Partners LP:		
6.125%, 3/1/2022	20,000	20,400
144A, 6.25%, 4/1/2023	10,000	10,400
Delek & Avner Tamar Bond Ltd., 144A, 5.082%, 12/30/2023	200,000	201,000
Ecopetrol SA, 5.875%, 5/28/2045	250,000	220,625
Endeavor Energy Resources LP:		
144A, 7.0%, 8/15/2021	75,000	74,625
144A, 8.125%, 9/15/2023	35,000	36,094
EP Energy LLC, 144A, 6.375%, 6/15/2023 (b)	25,000	25,062
EV Energy Partners LP, 8.0%, 4/15/2019	155,000	144,150
GeoPark Latin America Ltd. Agencia en Chile, 144A, 7.5%, 2/11/2020	200,000	173,000
Gulfport Energy Corp., 144A, 6.625%, 5/1/2023	10,000	10,125
Halcon Resources Corp.:		
144A, 8.625%, 2/1/2020	55,000	54,312
8.875%, 5/15/2021	10,000	6,575
9.75%, 7/15/2020	20,000	13,450
Hilcorp Energy I LP:		
144A, 5.0%, 12/1/2024	25,000	23,443
144A, 5.75%, 10/1/2025	40,000	38,400
Holly Energy Partners LP, 6.5%, 3/1/2020	20,000	19,950
Kinder Morgan, Inc.:		
3.05%, 12/1/2019	75,000	74,917
5.55%, 6/1/2045	50,000	46,214
7.25%, 6/1/2018	55,000	62,029
Laredo Petroleum, Inc., 6.25%, 3/15/2023	35,000	35,612
Linn Energy LLC, 6.25%, 11/1/2019	25,000	19,563
MEG Energy Corp.:		
144A, 6.5%, 3/15/2021	40,000	38,500
144A, 7.0%, 3/31/2024	95,000	91,081
Memorial Resource Development Corp., 5.875%, 7/1/2022	25,000	24,143
Murphy Oil U.S.A., Inc., 6.0%, 8/15/2023	40,000	41,500
Newfield Exploration Co., 5.375%, 1/1/2026	20,000	19,800
Northern Oil & Gas, Inc., 8.0%, 6/1/2020	90,000	81,900
Oasis Petroleum, Inc.:		
6.875%, 3/15/2022	75,000	76,125
6.875%, 1/15/2023	30,000	29,625
Odebrecht Offshore Drilling Finance Ltd.:		
144A, 6.625%, 10/1/2022	189,580	131,758
144A, 6.75%, 10/1/2022	229,775	164,864
Offshore Drilling Holding SA, 144A, 8.625%, 9/20/2020	200,000	179,000
ONEOK Partners LP, 4.9%, 3/15/2025	20,000	19,784
Pacific Rubiales Energy Corp., 144A, 5.375%, 1/26/2019	200,000	164,300

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

	Principal Amount ($)(a)	Value ($)
Parsley Energy LLC, 144A, 7.5%, 2/15/2022	5,000	5,073
Petrobras Global Finance BV, 6.85%, 6/5/2115	250,000	205,090
Range Resources Corp., 144A, 4.875%, 5/15/2025	25,000	24,285
Regency Energy Partners LP:		
5.0%, 10/1/2022	15,000	15,237
5.875%, 3/1/2022	5,000	5,323
Rice Energy, Inc., 144A, 7.25%, 5/1/2023	5,000	5,125
RSP Permian, Inc., 144A, 6.625%, 10/1/2022	60,000	61,350
Sabine Pass Liquefaction LLC:		
5.625%, 2/1/2021	105,000	107,100
144A, 5.625%, 3/1/2025	30,000	29,700
SESI LLC, 7.125%, 12/15/2021	60,000	63,600
Seven Generations Energy Ltd., 144A, 6.75%, 5/1/2023	10,000	9,975
Sunoco LP, 144A, 6.375%, 4/1/2023	20,000	20,800
Talos Production LLC, 144A, 9.75%, 2/15/2018	60,000	52,200
Targa Resources Partners LP, 144A, 4.125%, 11/15/2019	10,000	9,900
TerraForm Power Operating LLC, 144A, 5.875%, 2/1/2023	40,000	40,600
Tesoro Corp., 4.25%, 10/1/2017	35,000	35,700
Transocean, Inc., 4.3%, 10/15/2022	145,000	109,112
Transportadora de Gas Internacional SA ESP, 144A, 5.7%, 3/20/2022	500,000	524,375
Triangle U.S.A. Petroleum Corp., 144A, 6.75%, 7/15/2022	20,000	15,500
Whiting Petroleum Corp.:		
5.75%, 3/15/2021	45,000	44,280
144A, 6.25%, 4/1/2023	115,000	114,137
Williams Partners LP:		
4.0%, 9/15/2025	30,000	28,101
6.125%, 7/15/2022	55,000	58,437
WPX Energy, Inc., 5.25%, 1/15/2017	40,000	40,900
		4,601,614

Financials 7.5%

	Principal Amount ($)(a)		Value ($)
Assured Guaranty U.S. Holdings, Inc., 5.0%, 7/1/2024		2,000	1,962
Banco Continental SAECA, 144A, 8.875%, 10/15/2017		200,000	210,400
Banco de Credito del Peru, 144A, 4.25%, 4/1/2023		250,000	249,300
Banco do Brasil SA, 144A, 9.0%, 6/29/2049		200,000	180,440
Barclays Bank PLC, 7.625%, 11/21/2022		200,000	227,760
BBVA Bancomer SA, 144A, 6.75%, 9/30/2022		150,000	165,187
CBL & Associates LP, (REIT), 4.6%, 10/15/2024		120,000	118,155
China Overseas Finance Cayman II Ltd., REG S, 5.5%, 11/10/2020		250,000	270,159
CIT Group, Inc.:			
3.875%, 2/19/2019		145,000	143,912
5.0%, 5/15/2017		80,000	82,496
5.25%, 3/15/2018		90,000	93,037
CNO Financial Group, Inc.:			
4.5%, 5/30/2020		10,000	10,150
5.25%, 5/30/2025		15,000	15,243
Development Bank of Kazakhstan JSC, Series 3, REG S, 6.5%, 6/3/2020		500,000	520,000
E*TRADE Financial Corp., 4.625%, 9/15/2023		25,000	24,563
Equinix, Inc., (REIT), 5.375%, 4/1/2023		105,000	105,000
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044		50,000	47,433
Hellas Telecommunications Finance, 144A, 8.011%**, 7/15/2015*	EUR	109,187	0
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022		110,000	114,503
International Lease Finance Corp.:			
3.875%, 4/15/2018		65,000	65,325
5.75%, 5/15/2016		20,000	20,500
6.25%, 5/15/2019		50,000	54,063
8.625%, 9/15/2015		40,000	40,500
8.75%, 3/15/2017		120,000	131,293
Legg Mason, Inc., 5.625%, 1/15/2044		45,000	48,012
Macquarie Group Ltd., 144A, 6.0%, 1/14/2020		200,000	224,731
Massachusetts Mutual Life Insurance Co., 144A, 4.5%, 4/15/2065		10,000	8,881
Morgan Stanley, Series H, 5.45%, 7/29/2049		20,000	19,850
MPT Operating Partnership LP:			
(REIT), 6.375%, 2/15/2022		45,000	47,981
(REIT), 6.875%, 5/1/2021		50,000	52,813
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044		65,000	63,824
Navient Corp., 5.5%, 1/25/2023 (b)		125,000	118,750
Neuberger Berman Group LLC, 144A, 5.875%, 3/15/2022		45,000	48,094
Omega Healthcare Investors, Inc., (REIT), 4.95%, 4/1/2024		130,000	132,967
Popular, Inc., 7.0%, 7/1/2019		20,000	20,000
Seminole Tribe of Florida, Inc., 144A, 7.804%, 10/1/2020		70,000	74,725
The Goldman Sachs Group, Inc., Series L, 5.7%, 12/29/2049		35,000	35,126
			3,787,135

Health Care 3.1%

	Principal Amount ($)(a)	Value ($)
AbbVie, Inc., 3.6%, 5/14/2025	20,000	19,768
Actavis Funding SCS, 4.75%, 3/15/2045	2,000	1,904
Alere, Inc., 144A, 6.375%, 7/1/2023	25,000	25,438
Community Health Systems, Inc.:		
5.125%, 8/15/2018	185,000	189,625
5.125%, 8/1/2021	5,000	5,094
6.875%, 2/1/2022 (b)	30,000	31,650
7.125%, 7/15/2020	60,000	63,570
Concordia Healthcare Corp., 144A, 7.0%, 4/15/2023	10,000	10,000
Endo Finance LLC:		
144A, 5.375%, 1/15/2023	35,000	34,563
144A, 5.75%, 1/15/2022	35,000	35,438
144A, 6.0%, 2/1/2025	20,000	20,325

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

	Principal Amount ($)(a)	Value ($)
HCA, Inc.:		
6.5%, 2/15/2020	210,000	234,675
7.5%, 2/15/2022	80,000	91,900
Hologic, Inc., 144A, 5.25%, 7/15/2022 (c)	10,000	10,213
LifePoint Health, Inc., 5.5%, 12/1/2021	35,000	36,137
Mallinckrodt International Finance SA:		
4.75%, 4/15/2023	75,000	69,984
144A, 4.875%, 4/15/2020	20,000	20,351
Par Pharmaceutical Companies, Inc., 7.375%, 10/15/2020	55,000	58,712
Tenet Healthcare Corp.:		
144A, 3.786%**, 6/15/2020	20,000	20,175
6.25%, 11/1/2018	80,000	86,900
144A, 6.75%, 6/15/2023	50,000	51,000
Valeant Pharmaceuticals International, Inc.:		
144A, 5.375%, 3/15/2020	50,000	51,625
144A, 5.875%, 5/15/2023	40,000	41,000
144A, 6.125%, 4/15/2025	115,000	118,306
144A, 6.375%, 10/15/2020	35,000	36,859
144A, 6.75%, 8/15/2018	70,000	73,412
144A, 7.5%, 7/15/2021	140,000	150,675
		1,589,299
Industrials 4.3%		
ADT Corp.:		
3.5%, 7/15/2022 (b)	20,000	18,100
5.25%, 3/15/2020	40,000	41,900
6.25%, 10/15/2021	25,000	26,250
Aerojet Rocketdyne Holdings, Inc., 7.125%, 3/15/2021	80,000	85,200
Artesyn Embedded Technologies, Inc., 144A, 9.75%, 10/15/2020	40,000	39,700
Belden, Inc., 144A, 5.5%, 9/1/2022	55,000	54,587
Bombardier, Inc.:		
144A, 4.75%, 4/15/2019	20,000	19,450
144A, 5.5%, 9/15/2018	15,000	14,850
144A, 5.75%, 3/15/2022	55,000	48,950
144A, 6.0%, 10/15/2022	35,000	31,063
144A, 7.5%, 3/15/2025	10,000	9,075
144A, 7.75%, 3/15/2020	45,000	45,248
Casella Waste Systems, Inc., 7.75%, 2/15/2019	80,000	80,800
Covanta Holding Corp., 5.875%, 3/1/2024	30,000	29,925
CTP Transportation Products LLC, 144A, 8.25%, 12/15/2019	35,000	36,225
D.R. Horton, Inc., 4.0%, 2/15/2020	10,000	9,947
DigitalGlobe, Inc., 144A, 5.25%, 2/1/2021	25,000	24,469
Empresas ICA SAB de CV, 144A, 8.875%, 5/29/2024	200,000	149,500
EnerSys, 144A, 5.0%, 4/30/2023	5,000	4,945
Florida East Coast Holdings Corp., 144A, 6.75%, 5/1/2019	15,000	15,038
Garda World Security Corp., 144A, 7.25%, 11/15/2021	45,000	43,200
Gates Global LLC, 144A, 6.0%, 7/15/2022	30,000	27,150
Kenan Advantage Group, Inc., 144A, 8.375%, 12/15/2018	25,000	26,031
Masonite International Corp., 144A, 5.625%, 3/15/2023	25,000	25,406
Meritor, Inc.:		
6.25%, 2/15/2024	30,000	29,625
6.75%, 6/15/2021	40,000	40,900
Navios Maritime Holdings, Inc., 144A, 7.375%, 1/15/2022	110,000	95,287
Noble Group Ltd., 144A, 6.625%, 8/5/2020	250,000	248,625
Nortek, Inc., 8.5%, 4/15/2021	75,000	80,062
Oshkosh Corp.:		
5.375%, 3/1/2022	22,500	23,006
5.375%, 3/1/2025	5,000	5,000
Ply Gem Industries, Inc., 6.5%, 2/1/2022	60,000	58,850
SBA Communications Corp., 5.625%, 10/1/2019	30,000	31,200
Spirit AeroSystems, Inc., 5.25%, 3/15/2022	40,000	41,300
Titan International, Inc., 6.875%, 10/1/2020 (b)	55,000	50,531
TransDigm, Inc.:		
6.0%, 7/15/2022	40,000	39,500
6.5%, 7/15/2024	25,000	24,688
7.5%, 7/15/2021	125,000	134,375
Triumph Group, Inc., 5.25%, 6/1/2022	20,000	19,750
United Rentals North America, Inc.:		
4.625%, 7/15/2023	20,000	19,612
7.375%, 5/15/2020	95,000	101,364
7.625%, 4/15/2022	95,000	102,837
Wise Metals Group LLC, 144A, 8.75%, 12/15/2018	30,000	31,688
XPO Logistics, Inc.:		
144A, 6.5%, 6/15/2022	30,000	29,363
144A, 7.875%, 9/1/2019	35,000	37,401
		2,151,973
Information Technology 2.3%		
ACI Worldwide, Inc., 144A, 6.375%, 8/15/2020	15,000	15,788
Activision Blizzard, Inc., 144A, 5.625%, 9/15/2021	130,000	136,175
Audatex North America, Inc., 144A, 6.0%, 6/15/2021	25,000	25,688
BMC Software Finance, Inc., 144A, 8.125%, 7/15/2021	30,000	24,300
Boxer Parent Co., Inc., 144A, 9.0%, 10/15/2019 (b)	40,000	28,400
Cardtronics, Inc., 144A, 5.125%, 8/1/2022	20,000	19,550
CDW LLC, 6.0%, 8/15/2022	50,000	51,625
EarthLink Holdings Corp., 7.375%, 6/1/2020	30,000	31,200
Entegris, Inc., 144A, 6.0%, 4/1/2022	20,000	20,550
First Data Corp.:		
144A, 6.75%, 11/1/2020	72,000	76,095
144A, 7.375%, 6/15/2019	17,000	17,672
144A, 8.75%, 1/15/2022	60,000	63,787
Freescale Semiconductor, Inc., 144A, 6.0%, 1/15/2022	40,000	42,400
Infor U.S., Inc., 144A, 6.5%, 5/15/2022	30,000	30,525
Italics Merger Sub, Inc., 144A, 7.125%, 7/15/2023	10,000	9,875
Jabil Circuit, Inc., 7.75%, 7/15/2016	30,000	31,425
KLA-Tencor Corp., 4.65%, 11/1/2024	65,000	64,965

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

		Principal Amount ($)(a)	Value ($)
Micron Technology, Inc., 144A, 5.25%, 8/1/2023		30,000	28,762
NCR Corp.:			
5.875%, 12/15/2021		10,000	10,300
6.375%, 12/15/2023		20,000	21,200
NXP BV, 144A, 3.75%, 6/1/2018		35,000	35,262
Open Text Corp., 144A, 5.625%, 1/15/2023		25,000	24,750
Project Homestake Merger Corp., 144A, 8.875%, 3/1/2023		20,000	19,400
Sanmina Corp., 144A, 4.375%, 6/1/2019		5,000	4,988
Seagate HDD Cayman, 144A, 5.75%, 12/1/2034		100,000	98,462
Tencent Holdings Ltd., 144A, 3.375%, 5/2/2019		200,000	205,344
			1,138,488
Materials 4.7%			
Anglo American Capital PLC, 144A, 4.125%, 9/27/2022		200,000	194,307
ArcelorMittal, 5.125%, 6/1/2020		5,000	5,069
Ashland, Inc., 3.875%, 4/15/2018		20,000	20,550
AVINTIV Specialty Materials, Inc., 7.75%, 2/1/2019		30,000	30,900
Ball Corp., 5.25%, 7/1/2025		30,000	29,662
Berry Plastics Corp., 5.5%, 5/15/2022		60,000	60,225
Cascades, Inc., 144A, 5.5%, 7/15/2022		20,000	19,350
Cemex SAB de CV, 144A, 6.5%, 12/10/2019		200,000	209,940
Chemours Co.:			
144A, 6.625%, 5/15/2023		55,000	53,281
144A, 7.0%, 5/15/2025 (b)		10,000	9,700
Clearwater Paper Corp., 144A, 5.375%, 2/1/2025		25,000	24,500
Coveris Holding Corp., 144A, 10.0%, 6/1/2018		40,000	42,000
Coveris Holdings SA, 144A, 7.875%, 11/1/2019		5,000	4,975
Crown Americas LLC, 6.25%, 2/1/2021		10,000	10,425
Evolution Escrow Issuer LLC, 144A, 7.5%, 3/15/2022		30,000	28,425
First Quantum Minerals Ltd.:			
144A, 6.75%, 2/15/2020		5,000	4,838
144A, 7.0%, 2/15/2021		60,000	57,375
Glencore Funding LLC, 144A, 4.125%, 5/30/2023		110,000	106,416
Gold Fields Orogen Holdings BVI Ltd., 144A, 4.875%, 10/7/2020		250,000	228,750
Greif, Inc., 7.75%, 8/1/2019		195,000	216,937
Hexion, Inc.:			
6.625%, 4/15/2020		85,000	77,987
8.875%, 2/1/2018		60,000	54,150
Huntsman International LLC, 8.625%, 3/15/2021 (b)		10,000	10,524
Kaiser Aluminum Corp., 8.25%, 6/1/2020		40,000	43,300
Novelis, Inc., 8.75%, 12/15/2020		215,000	227,362
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021		40,000	40,700
Platform Specialty Products Corp., 144A, 6.5%, 2/1/2022		25,000	25,813
Reynolds Group Issuer, Inc.:			
5.75%, 10/15/2020		235,000	240,875
6.875%, 2/15/2021		100,000	104,250

		Principal Amount ($)(a)	Value ($)
Signode Industrial Group Lux SA, 144A, 6.375%, 5/1/2022		30,000	29,100
Tronox Finance LLC, 6.375%, 8/15/2020		30,000	27,825
WR Grace & Co-Conn:			
144A, 5.125%, 10/1/2021		15,000	15,113
144A, 5.625%, 10/1/2024		5,000	5,063
Yamana Gold, Inc., 4.95%, 7/15/2024		120,000	115,588
			2,375,275
Telecommunication Services 7.2%			
America Movil SAB de CV, 7.125%, 12/9/2024	MXN	2,000,000	123,404
AT&T, Inc.:			
2.45%, 6/30/2020		20,000	19,605
3.4%, 5/15/2025		40,000	38,148
B Communications Ltd., 144A, 7.375%, 2/15/2021		35,000	37,538
CenturyLink, Inc.:			
Series V, 5.625%, 4/1/2020		15,000	15,019
Series W, 6.75%, 12/1/2023 (b)		35,000	35,109
CommScope, Inc.:			
144A, 4.375%, 6/15/2020		15,000	15,150
144A, 5.0%, 6/15/2021		35,000	34,125
CyrusOne LP, 144A, 6.375%, 11/15/2022		30,000	31,050
Digicel Group Ltd.:			
144A, 7.125%, 4/1/2022		35,000	33,240
144A, 8.25%, 9/30/2020		305,000	305,765
Frontier Communications Corp.:			
6.25%, 9/15/2021		20,000	18,200
6.875%, 1/15/2025		85,000	71,081
7.125%, 1/15/2023		200,000	177,500
8.25%, 4/15/2017		62,000	66,650
8.5%, 4/15/2020		20,000	20,910
Hughes Satellite Systems Corp.:			
6.5%, 6/15/2019		63,000	68,355
7.625%, 6/15/2021		40,000	44,008
Intelsat Jackson Holdings SA:			
5.5%, 8/1/2023		55,000	48,703
7.25%, 10/15/2020		140,000	138,425
7.5%, 4/1/2021		215,000	212,581
Level 3 Financing, Inc.:			
5.375%, 8/15/2022		90,000	90,900
144A, 5.375%, 5/1/2025 (b)		30,000	28,913
6.125%, 1/15/2021		20,000	20,974
7.0%, 6/1/2020		75,000	79,594
8.625%, 7/15/2020		50,000	53,435
MTN Mauritius Investments Ltd., 144A, 4.755%, 11/11/2024		200,000	198,500
Plantronics, Inc., 144A, 5.5%, 5/31/2023		10,000	10,125
Sprint Communications, Inc.:			
144A, 7.0%, 3/1/2020 (b)		40,000	43,508
144A, 9.0%, 11/15/2018		175,000	197,620
Sprint Corp., 7.125%, 6/15/2024		200,000	185,520
T-Mobile U.S.A., Inc.:			
6.125%, 1/15/2022		15,000	15,488
6.375%, 3/1/2025		90,000	92,025
6.625%, 11/15/2020		65,000	67,600
Telefonica Celular del Paraguay SA, 144A, 6.75%, 12/13/2022		200,000	207,000
UPCB Finance IV Ltd., 144A, 5.375%, 1/15/2025		200,000	190,900

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

	Principal Amount ($)(a)	Value ($)
UPCB Finance V Ltd., 144A, 7.25%, 11/15/2021	27,000	29,160
UPCB Finance VI Ltd., 144A, 6.875%, 1/15/2022	9,000	9,585
VimpelCom Holdings BV, 144A, 5.95%, 2/13/2023	200,000	176,460
Wind Acquisition Finance SA, 144A, 6.5%, 4/30/2020	30,000	31,350
Windstream Services LLC:		
6.375%, 8/1/2023	40,000	32,550
7.75%, 10/15/2020 (b)	20,000	19,575
7.75%, 10/1/2021	55,000	50,325
7.875%, 11/1/2017	205,000	217,812
Zayo Group LLC:		
144A, 6.0%, 4/1/2023 (b)	20,000	19,754
144A, 6.375%, 5/15/2025	30,000	29,100
		3,652,339
Utilities 2.1%		
AES Corp.:		
3.283%**, 6/1/2019	20,000	20,000
8.0%, 6/1/2020	175,000	202,125
Calpine Corp.:		
5.375%, 1/15/2023	35,000	34,387
5.75%, 1/15/2025	35,000	34,038
Dynegy, Inc.:		
144A, 7.375%, 11/1/2022	30,000	31,425
144A, 7.625%, 11/1/2024	50,000	52,875
Energy Future Holdings Corp., Series Q, 6.5%, 11/15/2024*	100,000	105,000
IPALCO Enterprises, Inc., 5.0%, 5/1/2018	145,000	152,975
Lamar Funding Ltd., 144A, 3.958%, 5/7/2025	250,000	243,125
NGL Energy Partners LP, 5.125%, 7/15/2019	30,000	29,925
NRG Energy, Inc.:		
6.25%, 5/1/2024	100,000	99,250
7.875%, 5/15/2021	30,000	31,950
Talen Energy Supply LLC, 144A, 5.125%, 7/15/2019	30,000	29,400
		1,066,475
Total Corporate Bonds (Cost $25,453,883)		**24,990,046**

Mortgage-Backed Securities Pass-Throughs 10.3%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp., 3.5%, 12/1/2042 (c)	1,500,000	1,542,656
Federal National Mortgage Association, 4.0%, 4/1/2042 (c)	1,000,000	1,059,375
Government National Mortgage Association, 3.5%, 5/1/2043 (c)	2,500,000	2,594,727
Total Mortgage-Backed Securities Pass-Throughs (Cost $5,222,266)		**5,196,758**

Asset-Backed 1.3%

Home Equity Loans 0.1%

	Principal Amount ($)(a)	Value ($)
CIT Group Home Equity Loan Trust, "AF6", Series 2002-1, 6.2%, 2/25/2030	43,368	**43,246**
Miscellaneous 1.2%		
ARES CLO Ltd., "D", Series 2012-3A, 144A, 4.907%**, 1/17/2024	250,000	250,029
Domino's Pizza Master Issuer LLC, "A2", Series 2012-1A, 144A, 5.216%, 1/25/2042	144,938	149,608
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	231,763	228,365
		628,002
Total Asset-Backed (Cost $668,682)		**671,248**

Commercial Mortgage-Backed Securities 1.0%

	Principal Amount ($)(a)	Value ($)
Commercial Mortgage Trust, "AM", Series 2007-GG11, 5.867%, 12/10/2049	290,000	311,068
Del Coronado Trust, "M", Series 2013-HDMZ, 144A, 5.186%**, 3/15/2018	80,000	80,024
JPMBB Commercial Mortgage Securities Trust, "A3", Series 2014-C19, 3.669%, 4/15/2047	125,000	130,650
Total Commercial Mortgage-Backed Securities (Cost $480,959)		**521,742**

Collateralized Mortgage Obligations 10.2%

	Principal Amount ($)(a)	Value ($)
Banc of America Mortgage Securities, "2A2", Series 2004-A, 2.666%**, 2/25/2034	87,649	87,111
Bear Stearns Adjustable Rate Mortgage Trust, "2A1", Series 2005-11, 2.841%**, 12/25/2035	117,295	118,024
Countrywide Home Loans, "2A5", Series 2004-13, 5.75%, 8/25/2034	69,577	69,464
Federal Home Loan Mortgage Corp.:		
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025	972,206	75,654
"ZT", Series 4165, 3.0%, 2/15/2043	287,272	273,119
"ZG", Series 4213, 3.5%, 6/15/2043	56,707	55,021
"JI", Series 3558, Interest Only, 4.5%, 12/15/2023	19,556	500
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038	346,282	40,945
"DZ", Series 4253, 4.75%, 9/15/2043	1,073,446	1,201,000
"HI", Series 2934, Interest Only, 5.0%, 2/15/2020	81,448	6,597
"WI", Series 3010, Interest Only, 5.0%, 7/15/2020	130,413	10,329
"SP", Series 4047, Interest Only, 6.465%***, 12/15/2037	433,289	70,890
"JS", Series 3572, Interest Only, 6.615%***, 9/15/2039	539,310	83,244
Federal National Mortgage Association:		
"4", Series 406, Interest Only, 4.0%, 9/25/2040	179,886	37,056
"KZ", Series 2010-134, 4.5%, 12/25/2040	243,058	262,312
"BI", Series 2010-13, Interest Only, 5.0%, 12/25/2038	43,211	2,135

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

		Principal Amount ($)(a)	Value ($)
"PI", Series 2006-20, Interest Only, 6.493%***, 11/25/2030		345,266	55,865
"SI", Series 2007-23, Interest Only, 6.583%***, 3/25/2037		223,963	46,442
Freddie Mac Structured Agency Credit Risk Debt Notes, "M3", Series 2015-DN1, 4.335%**, 1/25/2025		750,000	757,082
Government National Mortgage Association:			
"GI", Series 2014-146, Interest Only, 3.5%, 9/20/2029		2,135,708	293,072
"GC", Series 2010-101, 4.0%, 8/20/2040		200,000	210,201
"ME", Series 2014-4, 4.0%, 1/16/2044		400,000	428,425
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044		296,134	52,377
"HI", Series 2015-77, Interest Only, 4.0%, 5/20/2045		496,459	100,892
"IP", Series 2014-115, Interest Only, 4.5%, 2/20/2044		90,233	18,337
"PZ", Series 2010-106, 4.75%, 8/20/2040		222,467	246,851
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039		278,674	55,071
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039		283,437	58,910
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039		263,252	53,690
"AI", Series 2007-38, Interest Only, 6.275%***, 6/16/2037		73,133	12,901
JPMorgan Mortgage Trust, "2A1", Series 2006-A2, 2.631%**, 4/25/2036		253,010	230,428
Merrill Lynch Mortgage Investors Trust, "2A", Series 2003-A6, 2.521%**, 10/25/2033		60,212	60,002
Wells Fargo Mortgage-Backed Securities Trust, "2A3",Series 2004-EE, 2.695%**, 12/25/2034		87,574	86,938
Total Collateralized Mortgage Obligations (Cost $4,981,471)			**5,160,885**

Government & Agency Obligations 17.6%

Other Government Related (d) 0.4%

Perusahaan Penerbit SBSN, 144A, 4.325%, 5/28/2025		200,000	**194,760**

Sovereign Bonds 10.5%

Dominican Republic, 144A, 5.5%, 1/27/2025		100,000	100,250
Federative Republic of Brazil, 12.5%, 1/5/2016	BRL	250,000	79,815
Hashemite Kingdom of Jordan Government AID Bond, 3.0%, 6/30/2025		600,000	601,500
Indonesia Treasury Bond, Series FR56, 8.375%, 9/15/2026	IDR	1,340,000,000	100,562
Kingdom of Spain-Inflation Linked Bond, REG S, 144A, 1.0%, 11/30/2030	EUR	556,367	575,482
Republic of Argentina-Inflation Linked Bond, 5.83%, 12/31/2033	ARS	375	127
Republic of El Salvador:			
144A, 6.375%, 1/18/2027		75,000	72,562
144A, 7.65%, 6/15/2035		100,000	100,500
Republic of Hungary:			
4.0%, 3/25/2019		200,000	206,460
Series 19/A, 6.5%, 6/24/2019	HUF	11,600,000	46,927
Republic of Ireland, REG S, 2.0%, 2/18/2045	EUR	320,000	311,613
Republic of New Zealand, Series 0427, REG S, 4.5%, 4/15/2027	NZD	1,100,000	806,736
Republic of Poland, Series 0725, 3.25%, 7/25/2025	PLN	360,000	95,494
Republic of Portugal, 144A, REG S, 4.1%, 2/15/2045	EUR	700,000	809,176
Republic of Singapore, 2.75%, 4/1/2042	SGD	300,000	210,380
Republic of Slovenia:			
144A, 4.75%, 5/10/2018		200,000	212,517
144A, 5.5%, 10/26/2022		100,000	110,895
Republic of South Africa:			
Series R204, 8.0%, 12/21/2018	ZAR	1,100,000	91,695
Series R186, 10.5%, 12/21/2026	ZAR	2,700,000	258,326
Republic of Sri Lanka, 144A, 5.125%, 4/11/2019		200,000	199,000
Republic of Turkey, 8.5%, 7/10/2019	TRY	280,000	101,548
Republic of Uruguay, 5.1%, 6/18/2050		40,000	38,100
United Mexican States, 4.6%, 1/23/2046		200,000	185,000
			5,314,665

U.S. Treasury Obligations 6.7%

U.S. Treasury Bills:			
0.06%****, 8/13/2015 (e)		254,000	254,000
0.07%****, 12/3/2015 (e)		501,000	500,908
U.S. Treasury Bonds:			
2.5%, 2/15/2045		21,000	18,482
3.125%, 8/15/2044		80,400	80,532
3.625%, 2/15/2044		36,000	39,580
U.S. Treasury Notes:			
1.0%, 8/31/2016 (f)		1,630,000	1,641,717
1.0%, 9/30/2016		500,000	503,789
1.5%, 5/31/2019		232,600	233,890
1.625%, 6/30/2019		19,000	19,180
1.625%, 12/31/2019		109,000	109,451
2.125%, 5/15/2025		5,000	4,909
			3,406,438
Total Government & Agency Obligations (Cost $9,305,798)			**8,915,863**

Loan Participations and Assignments 3.6%

Senior Loans**

American Rock Salt Holdings LLC, First Lien Term Loan, 4.75%, 5/20/2021		103,950	103,858
Avis Budget Car Rental LLC, Term Loan B, 3.0%, 3/15/2019		58,945	59,117
Calpine Corp., Term Loan B5, 3.5%, 5/27/2022		195,000	193,635

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

	Principal Amount ($)(a)	Value ($)
CSC Holdings, Inc., Term Loan B, 2.687%, 4/17/2020	94,663	93,834
DaVita HealthCare Partners, Inc., Term Loan B, 3.5%, 6/24/2021	69,300	69,426
Goodyear Tire & Rubber Co., Second Lien Term Loan, 3.75%, 4/30/2019	183,333	184,059
HJ Heinz Co., Term Loan B2, 3.25%, 6/5/2020	163,781	163,997
Level 3 Financing, Inc., Term Loan B2, 3.5%, 5/31/2022	60,000	59,669
MacDermid, Inc.:		
Term Loan B2, 4.75%, 6/7/2020	30,000	30,171
First Lien Term Loan, 4.5%, 6/7/2020	53,900	54,112
MEG Energy Corp., Term Loan, 3.75%, 3/31/2020	254,078	249,246
NRG Energy, Inc., Term Loan B, 2.75%, 7/2/2018	116,633	115,870
Par Pharmaceutical Companies, Inc., Term Loan B2, 4.0%, 9/30/2019	116,259	116,383
Quebecor Media, Inc., Term Loan B1, 3.25%, 8/17/2020	88,425	87,237
Valeant Pharmaceuticals International, Inc.:		
Term Loan B, 3.5%, 2/13/2019	137,133	136,982
Term Loan B, 3.5%, 12/11/2019	115,706	115,553
Total Loan Participations and Assignments (Cost $1,840,403)		**1,833,149**

Municipal Bonds and Notes 1.8%

	Principal Amount ($)(a)	Value ($)
Chicago, IL, Airport Revenue, O'Hare International Airport, Series B, 6.0%, 1/1/2041	145,000	168,832
Massachusetts, State School Building Authority, Sales Tax Revenue, Qualified School Construction Bond, Series A, 4.885%, 7/15/2028	300,000	325,497
Orlando & Orange County, FL, Expressway Authority Revenue, Series C, 5.0%, 7/1/2040	145,000	158,950
Port Authority of New York & New Jersey, 4.926%, 10/1/2051	260,000	274,048
Total Municipal Bonds and Notes (Cost $849,814)		**927,327**

Convertible Bond 0.4%

Materials

	Principal Amount ($)(a)	Value ($)
GEO Specialty Chemicals, Inc., 144A, 7.5%, 10/30/2018 (Cost $117,596)	120,175	**219,620**

Preferred Security 0.2%

Materials

	Principal Amount ($)(a)	Value ($)
Hercules, Inc., 6.5%, 6/30/2029 (Cost $60,889)	95,000	**86,450**

Common Stocks 0.0%

	Shares	Value ($)
Consumer Discretionary 0.0%		
Dawn Holdings, Inc.* (g)	1	**2,115**
Industrials 0.0%		
Congoleum Corp.*	2,500	0
Quad Graphics, Inc.	24	444
		444
Materials 0.0%		
GEO Specialty Chemicals, Inc.*	13,196	**9,258**
Total Common Stocks (Cost $25,206)		**11,817**

Preferred Stock 0.1%

Consumer Discretionary

	Shares	Value ($)
Ally Financial, Inc., Series G, 144A, 7.0% (Cost $41,756)	45	**45,696**

Warrant 0.0%

Materials

	Shares	Value ($)
Hercules Trust II, Expiration Date 3/31/2029* (Cost $17,432)	85	**500**

Call Options Purchased 0.1%

Options on Interest Rate Swap Contracts

	Contract Amount	Value ($)
Pay Fixed Rate — 3.72% – Receive Floating — 3-Month LIBOR, Swap Expiration Date 4/22/2026, Option Expiration Date 4/20/2016[1]	1,300,000	4,805
Pay Fixed Rate — 4.19% – Receive Floating — 3-Month LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[2]	1,500,000	9,733
Pay Fixed Rate — 4.32% – Receive Floating — 3-Month LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[3]	1,400,000	7,406
Total Call Options Purchased (Cost $191,320)		**21,944**

Put Options Purchased 0.1%

Options on Interest Rate Swap Contracts

	Contract Amount	Value ($)
Receive Fixed Rate — 2.19% – Pay Floating — 3-Month LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[2]	1,500,000	22,196
Receive Fixed Rate — 2.32% – Pay Floating — 3-Month LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[3]	1,400,000	25,095
Total Put Options Purchased (Cost $98,573)		**47,291**

Securities Lending Collateral 1.4%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.16% (h) (i) (Cost $717,278)	717,278	**717,278**

Cash Equivalents 15.2%

	Shares	Value ($)
Central Cash Management Fund, 0.09% (h) (Cost $7,670,269)	7,670,269	**7,670,269**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $57,743,595)†	112.7	**57,037,883**
Other Assets and Liabilities, Net	(12.7)	**(6,437,586)**
Net Assets	100.0	**50,600,297**

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

The following table represents bonds that are in default:

Security	Coupon	Maturity Date	Principal Amount		Cost ($)	Value ($)
Afren PLC*	10.25%	4/8/2019	USD	140,000	152,586	61,600
Energy Future Holdings Corp.*	6.5%	11/15/2024	USD	100,000	60,368	105,000
Hellas Telecommunications Finance*	8.011%	7/15/2015	EUR	109,187	32,169	0
					245,123	**166,600**

* 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, 2015.

*** These securities are shown at their current rate as of June 30, 2015.

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

† The cost for federal income tax purposes was $57,739,660. At June 30, 2015, net unrealized depreciation for all securities based on tax cost was $701,777. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $1,035,446 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,737,223.

(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, 2015 amounted to $693,496, which is 1.4% of net assets.

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

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

(e) At June 30, 2015, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(f) At June 30, 2015, this security has been pledged, in whole or in part, to cover initial margin requirements for open centrally cleared swap contracts.

(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	2,115	.00

(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; 3-Month LIBOR rate at June 30, 2015 is 0.28%.

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

SBSN: Surat Berharga Syariah Negara

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.

At June 30, 2015, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year Australian Bond	AUD	9/15/2015	12	1,159,746	5,859
10 Year U.S. Treasury Note	USD	9/21/2015	3	378,516	(2,912)
Euro-BUXL 30 Year German Government Bond	EUR	9/8/2015	6	994,267	(11,425)
Total net unrealized depreciation					**(8,478)**

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

At June 30, 2015, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year Canadian Government Bond	CAD	9/21/2015	10	1,120,897	(11,175)
10 Year U.S. Treasury Note	USD	9/21/2015	6	757,031	657
Euro-Bund German Federal Government Bond	EUR	9/8/2015	8	1,355,657	(16,066)
Ultra Long U.S. Treasury Bond	USD	9/21/2015	28	4,313,750	119,853
Total net unrealized appreciation					**93,269**

At June 30, 2015, 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 — 3-Month LIBOR	2/3/2017 2/3/2027	700,000[2]	2/1/2017	50,400	(18,581)
Receive Fixed — 3.32% – Pay Floating — 3-Month LIBOR	2/3/2017 2/3/2027	700,000[3]	2/1/2017	50,631	(15,767)
Receive Fixed — 4.22% – Pay Floating — 3-Month LIBOR	4/22/2016 4/22/2026	1,300,000[1]	4/20/2016	46,345	(1,416)
Total Call Options				**147,376**	**(35,764)**
Put Options					
Pay Fixed — 3.19% – Receive Floating — 3-Month LIBOR	2/3/2017 2/3/2027	700,000[2]	2/1/2017	50,400	(36,599)
Pay Fixed — 3.32% – Receive Floating — 3-Month LIBOR	2/3/2017 2/3/2027	700,000[3]	2/1/2017	50,631	(41,642)
Total Put Options				**101,031**	**(78,241)**
Total				**248,407**	**(114,005)**

(j) Unrealized appreciation on written options on interest rate swap contracts at June 30, 2015 was $134,402.

At June 30, 2015, open credit default swap contracts purchased were as follows:

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount ($)	Fixed Cash Flows Paid	Underlying Debt Obligation	Value ($)	Unrealized Appreciation ($)
3/20/2015 6/20/2020	2,970,000	5.0%	Markit Dow Jones CDX North America High Yield Index	(190,843)	**1,473**

At June 30, 2015, 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 ($)	Unrealized Appreciation ($)
6/20/2013 9/20/2018	100,000[4]	5.0%	Sprint Communications, Inc., 6.0%, 12/1/2016, B+	6,394	3,830	2,564
1/21/2015 3/20/2020	45,000[5]	5.0%	General Motors Corp., 6.25%, 10/2/2043, BBB–	7,503	6,762	741
4/15/2015 6/20/2020	30,000[6]	5.0%	CCO Holdings LLC, 7.25%, 10/30/2017, BB–	2,940	2,867	73
Total unrealized appreciation						**3,378**

(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.

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

At June 30, 2015, 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) ($)
12/16/2015 9/18/2017	3,600,000	Fixed — 1.557%	Floating — 3-Month LIBOR	(25,832)	(29,430)
12/16/2015 9/16/2020	2,000,000	Floating — 3-Month LIBOR	Fixed — 2.214%	23,131	24,103
9/16/2015 9/16/2020	3,807,000	Fixed — 2.25%	Floating — 3-Month LIBOR	(68,150)	(1,223)
6/17/2015 6/18/2025	4,000,000	Fixed — 2.404%	Floating — 3-Month LIBOR	11,503	11,503
12/16/2015 9/16/2025	3,000,000	Fixed — 2.64%	Floating — 3-Month LIBOR	(17,783)	(876)
12/16/2015 9/17/2035	200,000	Fixed — 2.938%	Floating — 3-Month LIBOR	(877)	3,216
9/16/2015 9/16/2045	900,000	Floating — 3-Month LIBOR	Fixed — 3.0%	9,189	(8,313)
12/16/2015 9/18/2045	500,000	Floating — 3-Month LIBOR	Fixed — 2.998%	1,624	(14,745)
Total net unrealized depreciation					**(15,765)**

Counterparties:

1 Nomura International PLC

2 JPMorgan Chase Securities, Inc.

3 BNP Paribas

4 Bank of America

5 Credit Suisse

6 Barclays Bank PLC

As of June 30, 2015, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
KRW	584,831,000	JPY	65,000,000	7/9/2015	6,937	Nomura International PLC
KRW	584,837,500	JPY	65,000,000	7/9/2015	6,931	Australia & New Zealand Banking Group Ltd.
AUD	497,075	GBP	250,000	7/9/2015	9,428	Morgan Stanley
AUD	497,065	GBP	250,000	7/9/2015	9,436	Commonwealth Bank of Australia
USD	1,195,438	JPY	150,000,000	7/9/2015	30,300	Barclays Bank PLC
SEK	4,144,496	EUR	450,000	7/9/2015	1,721	Societe Generale
SEK	4,143,681	EUR	450,000	7/9/2015	1,820	Morgan Stanley
SEK	4,179,600	NOK	4,000,000	7/9/2015	5,849	Crédit Agricole CIB
SEK	4,192,876	NOK	4,000,000	7/9/2015	4,248	Morgan Stanley
JPY	65,000,000	KRW	593,580,000	7/9/2015	905	Nomura International PLC
JPY	65,000,000	KRW	593,547,500	7/9/2015	876	Australia & New Zealand Banking Group Ltd.
EUR	700,000	USD	790,939	7/9/2015	10,467	BNP Paribas
NZD	500,000	USD	349,950	7/9/2015	11,335	Macquarie Bank Ltd.
NZD	200,000	USD	138,783	7/9/2015	3,337	National Australia Bank Ltd.
USD	1,186,326	EUR	1,102,200	7/13/2015	42,645	Societe Generale
EUR	839,000	USD	939,811	7/13/2015	4,313	Societe Generale
EUR	161,000	USD	179,761	7/13/2015	243	UBS AG
SEK	5,150,000	USD	623,198	7/13/2015	1,829	Societe Generale
SGD	589,000	USD	439,836	7/13/2015	2,592	Societe Generale
USD	1,316,652	SEK	11,133,700	7/13/2015	26,677	Societe Generale
USD	335,966	EUR	302,000	7/13/2015	769	UBS AG
NZD	1,192,000	USD	838,495	7/13/2015	31,520	Societe Generale
PLN	410,000	USD	109,503	8/10/2015	581	Citigroup, Inc.
USD	585,811	ZAR	7,200,000	8/14/2015	1,314	BNP Paribas
MXN	4,050,000	USD	261,827	8/14/2015	4,989	BNP Paribas

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

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
MXN	2,042,900	USD	130,856	8/14/2015	1,301	JPMorgan Chase Securities, Inc.
COP	945,000,000	USD	370,376	8/18/2015	9,578	BNP Paribas
Total unrealized appreciation					**231,941**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
CAD	650,000	USD	519,925	7/9/2015	(441)	Morgan Stanley
CAD	650,000	USD	520,000	7/9/2015	(366)	Macquarie Bank Ltd.
GBP	500,000	USD	780,635	7/9/2015	(4,950)	Morgan Stanley
JPY	150,000,000	USD	1,221,275	7/9/2015	(4,463)	Nomura International PLC
USD	350,959	CAD	426,243	7/13/2015	(9,742)	Societe Generale
NOK	5,952,000	USD	734,558	7/13/2015	(24,392)	BNP Paribas
SGD	396,000	USD	291,463	7/13/2015	(2,508)	UBS AG
EUR	2,591,700	USD	2,783,450	7/13/2015	(106,336)	Citigroup, Inc.
CAD	426,243	USD	338,834	7/13/2015	(2,383)	Citigroup, Inc.
SEK	11,136,000	USD	1,277,009	7/13/2015	(66,597)	Barclays Bank PLC
USD	786,485	NOK	5,952,000	7/13/2015	(27,534)	Barclays Bank PLC
USD	359,328	EUR	322,000	7/13/2015	(293)	Citigroup, Inc.
USD	633,438	SEK	5,152,300	7/13/2015	(11,791)	Barclays Bank PLC
USD	210,101	SGD	283,000	7/13/2015	(16)	Barclays Bank PLC
TRY	280,000	USD	100,736	7/20/2015	(3,085)	BNP Paribas
ZAR	10,420,000	USD	830,525	8/14/2015	(19,175)	BNP Paribas
USD	193,496	TRY	525,000	8/14/2015	(197)	Nomura International PLC
USD	258,865	MXN	4,050,000	8/14/2015	(2,026)	BNP Paribas
TRY	525,000	USD	186,839	8/14/2015	(6,459)	Nomura International PLC
ILS	950,000	USD	247,919	8/14/2015	(3,844)	Nomura International PLC
Total unrealized depreciation					**(296,598)**	

Currency Abbreviations

ARS	Argentine Peso	HUF	Hungarian Forint	NZD	New Zealand Dollar
AUD	Australian Dollar	IDR	Indonesian Rupiah	PLN	Polish Zloty
BRL	Brazilian Real	ILS	Israeli Shekel	SEK	Swedish Krona
CAD	Canadian Dollar	JPY	Japanese Yen	SGD	Singapore Dollar
COP	Colombian Peso	KRW	South Korean Won	TRY	Turkish Lira
EUR	Euro	MXN	Mexican Peso	USD	United States Dollar
GBP	British Pound	NOK	Norwegian Krone	ZAR	South African Rand

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

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

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2015 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	$ —	$ 24,990,046	$ 0	$ 24,990,046
Mortgage-Backed Securities Pass-Throughs	—	5,196,758	—	5,196,758
Asset-Backed	—	671,248	—	671,248
Commercial Mortgage-Backed Securities	—	521,742	—	521,742
Collateralized Mortgage Obligations	—	5,160,885	—	5,160,885
Government & Agency Obligations	—	8,915,863	—	8,915,863
Loan Participations and Assignments	—	1,833,149	—	1,833,149
Municipal Bonds and Notes	—	927,327	—	927,327
Convertible Bond	—	—	219,620	219,620
Preferred Security	—	86,450	—	86,450
Common Stocks (m)	444	—	11,373	11,817
Preferred Stock	—	45,696	—	45,696
Warrant	—	—	500	500
Short-Term Investments (m)	8,387,547	—	—	8,387,547
Derivatives (n)				
Purchased Options	—	69,235	—	69,235
Futures Contracts	126,369	—	—	126,369
Credit Default Swap Contracts	—	4,851	—	4,851
Interest Rate Swap Contracts	—	38,822	—	38,822
Forward Foreign Currency Exchange Contracts	—	231,941	—	231,941
Total	**$ 8,514,360**	**$ 48,694,013**	**$ 231,493**	**$ 57,439,866**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (n)				
Futures Contracts	$ (41,578)	$ —	$ —	$ (41,578)
Written Options	—	(114,005)	—	(114,005)
Interest Rate Swap Contracts	—	(54,587)	—	(54,587)
Forward Foreign Currency Exchange Contracts	—	(296,598)	—	(296,598)
Total	**$ (41,578)**	**$ (465,190)**	**$ —**	**$ (506,768)**

There have been no transfers between fair value measurement levels during the period ended June 30, 2015.

(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, 2015 (Unaudited)

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $49,356,048) — including $693,496 of securities loaned	$	48,650,336
Investment in Daily Assets Fund Institutional (cost $717,278)*		717,278
Investment in Central Cash Management Fund (cost $7,670,269)		7,670,269
Total investments in securities, at value (cost $57,743,595)		57,037,883
Foreign currency, at value (cost $433,857)		434,799
Receivable for investments sold		493,336
Receivable for investments sold — when-issued/delayed delivery securities		1,031,265
Receivable for Fund shares sold		9,215
Receivable for variation margin on centrally cleared swaps		13,773
Interest receivable		526,035
Unrealized appreciation on bilateral swap contracts		3,378
Unrealized appreciation on forward foreign currency exchange contracts		231,941
Upfront payments paid on bilateral swap contracts		13,459
Foreign taxes recoverable		4,132
Other assets		538
Total assets	$	59,799,754
Liabilities		
Cash overdraft		14,000
Payable upon return of securities loaned		717,278
Payable for investments purchased		1,626,592
Payable for investments purchased — when-issued/delayed delivery securities		6,286,306
Payable for Fund shares redeemed		38,866
Payable for variation margin on futures contracts		3,483
Options written, at value (premiums received $248,407)		114,005
Unrealized depreciation on forward foreign currency exchange contracts		296,598
Accrued management fee		5,774
Accrued Trustees' fees		233
Other accrued expenses and payables		96,322
Total liabilities		9,199,457
Net assets, at value	**$**	**50,600,297**
Net Assets Consist of		
Undistributed net investment income		1,001,827
Net unrealized appreciation (depreciation) on:		
Investments		(705,712)
Swap contracts		(10,914)
Futures		84,791
Foreign currency		(64,424)
Written options		134,402
Accumulated net realized gain (loss)		(1,365,433)
Paid-in capital		51,525,760
Net assets, at value	**$**	**50,600,297**
Class A		
Net Asset Value, offering and redemption price per share ($50,600,297 ÷ 4,652,647 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**10.88**

* 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, 2015 (Unaudited)

Investment Income	
Income:	
Interest (net of foreign taxes withheld of $615)	$ 1,114,039
Dividends	7,040
Income distributions — Central Cash Management Fund	2,968
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	1,329
Total income	1,125,376
Expenses:	
Management fee	142,074
Administration fee	25,832
Services to shareholders	405
Custodian fee	34,093
Professional fees	41,715
Reports to shareholders	12,218
Trustees' fees and expenses	2,172
Pricing fee	23,079
Other	1,821
Total expenses before expense reductions	283,409
Expense reductions	(102,450)
Total expenses after expense reductions	180,959
Net investment income	**944,417**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	(569,008)
Swap contracts	54,154
Futures	(230,208)
Foreign currency	499,009
	(246,053)
Change in net unrealized appreciation (depreciation) on:	
Investments	(163,772)
Swap contracts	(39,284)
Futures	100,327
Written options	17,693
Foreign currency	(46,411)
	(131,447)
Net gain (loss)	**(377,500)**
Net increase (decrease) in net assets resulting from operations	**$ 566,917**

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, 2015 (Unaudited)	Year Ended December 31, 2014
Operations:		
Net investment income	$ 944,417	$ 2,471,475
Net realized gain (loss)	(246,053)	(166,856)
Change in net unrealized appreciation (depreciation)	(131,447)	(970,135)
Net increase (decrease) in net assets resulting from operations	566,917	1,334,484
Distributions to shareholders from:		
Net investment income:		
Class A	(2,026,151)	(2,905,554)
Total distributions	(2,026,151)	(2,905,554)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,217,200	3,829,411
Reinvestment of distributions	2,026,151	2,905,554
Payments for shares redeemed	(4,769,449)	(12,535,275)
Net increase (decrease) in net assets from Class A share transactions	(1,526,098)	(5,800,310)
Increase (decrease) in net assets	(2,985,332)	(7,371,380)
Net assets at beginning of period	53,585,629	60,957,009
Net assets at end of period (including undistributed net investment income of $1,001,827 and $2,083,561, respectively)	**$ 50,600,297**	**$ 53,585,629**

Other Information		
Class A		
Shares outstanding at beginning of period	4,786,192	5,284,551
Shares sold	109,414	334,959
Shares issued to shareholders in reinvestment of distributions	184,028	258,501
Shares redeemed	(426,987)	(1,091,819)
Net increase (decrease) in Class A shares	(133,545)	(498,359)
Shares outstanding at end of period	**4,652,647**	**4,786,192**

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

Financial Highlights

Class A	Six Months Ended 6/30/15 (Unaudited)	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data						
Net asset value, beginning of period	**$11.20**	**$11.53**	**$12.60**	**$11.90**	**$11.96**	**$11.61**
Income (loss) from investment operations:						
Net investment income[a]	.20	.49	.49	.57	.63	.66
Net realized and unrealized gain (loss)	(.07)	(.23)	(.59)	.92	(.01)	.47
Total from investment operations	.13	.26	(.10)	1.49	.62	1.13
Less distributions from:						
Net investment income	(.45)	(.59)	(.62)	(.76)	(.68)	(.78)
Net realized gains	—	—	(.35)	(.03)	—	—
Total distributions	(.45)	(.59)	(.97)	(.79)	(.68)	(.78)
Net asset value, end of period	**$10.88**	**$11.20**	**$11.53**	**$12.60**	**$11.90**	**$11.96**
Total Return (%)[b]	1.07**	2.23	(1.04)	13.08	5.31	10.05
Ratios to Average Net Assets and Supplemental Data						
Net assets, end of period ($ millions)	51	54	61	73	69	76
Ratio of expenses before expense reductions (%)	1.10*	1.08	1.02	.99	.99	.95
Ratio of expenses after expense reductions (%)	.70*	.77	.74	.77	.79	.86
Ratio of net investment income (%)	3.66*	4.23	4.16	4.72	5.38	5.62
Portfolio turnover rate (%)	108**	185	183	164	144	167

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 (the "Fund") is a diversified series of Deutsche 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. Certain securities may be valued on the basis of a price provided by a single source or broker-dealer. No active trading market may exist for some senior loans and they may be subject to restrictions on resale. The inability to dispose of senior loans in a timely fashion could result in losses. 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. Equity 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.

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, 2015, 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, 2014, the Fund had net tax basis capital loss carryforwards of approximately $1,129,000, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($829,000) and long-term losses ($300,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 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, 2015, 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, 2015 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2015, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $13,300,000 to $18,007,000.

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, 2015, the Fund entered into credit default swap agreements to gain exposure to the underlying issuer's credit quality characteristics and to hedge the risk of default on fund securities.

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, 2015 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2015, the investment in credit default swap contracts purchased had a total notional value generally indicative of a range from $0 to $2,970,000, and the investment in credit default swap contracts sold had a total notional value generally indicative of a range from $145,000 to $445,000.

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, 2015, 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, 2015 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, 2015, the investment in written option contracts had a total value generally indicative of a range from approximately $114,000 to $152,000, and purchased option contracts had a total value generally indicative of a range from approximately $69,000 to $121,000.

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, 2015, 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, 2015 is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2015, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $2,533,000 to $4,992,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $3,123,000 to $18,678,000.

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, 2015, 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, 2015, is included in a table following the Fund's Investment Portfolio. For the six months ended June 30, 2015, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $8,466,000 to $19,951,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $7,413,000 to $14,683,000. The investment in forward currency contracts long vs. other foreign currencies sold had a total contract value generally indicative of a range from $4,905,000 to approximately to $9,640,000.

The following tables summarize the value of the Fund's derivative instruments held as of June 30, 2015 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)	$ 69,235	$ —	$ 38,822	$ 126,369	$ 234,426
Credit Contracts (a) (b)	—	—	4,851	—	4,851
Foreign Exchange Contracts (c)	—	231,941	—	—	231,941
	$ 69,235	**$ 231,941**	**$ 43,673**	**$ 126,369**	**$ 471,218**

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)	$ (114,005)	$ —	$ (54,587)	$ (41,578)	$ (210,170)
Foreign Exchange Contracts (c)	—	(296,598)	—	—	(296,598)
	$ (114,005)	**$ (296,598)**	**$ (54,587)**	**$ (41,578)**	**$ (506,768)**

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, 2015 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)	$ —	$ 1,953	$ (230,208)	$ (228,255)
Credit Contracts (a)	—	52,201	—	52,201
Foreign Exchange Contracts (b)	466,131	—	—	466,131
	$ 466,131	**$ 54,154**	**$ (230,208)**	**$ 290,077**

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)	$ (24,710)	$ 17,693	$ —	$ (22,256)	$ 100,327	$ 71,054
Credit Contracts (a)	—	—	—	(17,028)	—	(17,028)
Foreign Exchange Contracts (b)	—	—	(49,851)	—	—	(49,851)
	$ (24,710)	**$ 17,693**	**$ (49,851)**	**$ (39,284)**	**$ 100,327**	**$ 4,175**

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, 2015, 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 counterparty, 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.	$ 7,807	$ —	$ —	$ 7,807
Bank of America	2,564	—	—	2,564
Barclays Bank PLC	30,373	(30,373)	—	—
BNP Paribas	58,849	(58,849)	—	—
Crédit Agricole CIB	5,849	—	—	5,849
Citigroup, Inc.	581	(581)	—	—
Commonwealth Bank of Australia	9,436	—	—	9,436
Credit Suisse	741	—	—	741
JPMorgan Chase Securities, Inc.	33,230	(33,230)	—	—
Macquarie Bank Ltd.	11,335	(366)	—	10,969
Morgan Stanley	15,496	(5,391)	—	10,105
National Australia Bank Ltd.	3,337	—	—	3,337
Nomura International PLC	12,647	(12,647)	—	—
Societe Generale	111,297	(9,742)	—	101,555
UBS AG	1,012	(1,012)	—	—
	$ 304,554	**$ (152,191)**	**$ —**	**$ 152,363**

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	$ 105,938	$ (30,373)	$ —	$ 75,565
BNP Paribas	106,087	(58,849)	—	47,238
Citigroup, Inc.	109,012	(581)	—	108,431
JPMorgan Chase Securities, Inc.	55,180	(33,230)	—	21,950
Macquarie Bank Ltd.	366	(366)	—	—
Morgan Stanley	5,391	(5,391)	—	—
Nomura International PLC	16,379	(12,647)	—	3,732
Societe Generale	9,742	(9,742)	—	—
UBS AG	2,508	(1,012)	—	1,496
	$ 410,603	**$ (152,191)**	**$ —**	**$ 258,412**

C. Purchases and Sales of Securities

During the six months ended June 30, 2015, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $50,977,268 and $47,068,467, respectively. Purchases and sales of U.S. Treasury obligations aggregated $3,370,281 and $2,710,919, respectively.

For the six months ended June 30, 2015, 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, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annualized rate (exclusive of any applicable waivers/reimbursements) of 0.55% of the Fund's average daily net assets.

For the period from January 1, 2015 through April 30, 2016, the Advisor has contractually agreed to waive its fee and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) at 0.70%.

For the six months ended June 30, 2015, fees waived and/or expenses reimbursed amounted to $102,450.

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, 2015, the Administration Fee was $25,832, of which $4,175 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, 2015, the amounts charged to the Fund by DSC aggregated $73, of which $36 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $7,752, of which $7,225 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 1940 Act, 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, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $116.

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, 2015, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 68% and 29%.

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 the one-month 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, 2015.

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, 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, 2015 to June 30, 2015).

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, 2015

Actual Fund Return	**Class A**
Beginning Account Value 1/1/15	$1,000.00
Ending Account Value 6/30/15	$1,010.70
Expenses Paid per $1,000*	$ 3.49
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 1/1/15	$1,000.00
Ending Account Value 6/30/15	$1,021.32
Expenses Paid per $1,000*	$ 3.51

* 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	.70%

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 Deutsche Unconstrained Income VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

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

— In September 2014, 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 counsel to discuss contract review and other matters. In addition, the Independent Trustees were 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 ("DB"), 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 Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's 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 index(es) 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 a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 4th 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-, three- and five-year periods ended December 31, 2013. 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 the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche 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 equal to the median of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). 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, 2013, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). 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 that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. 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 information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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 Deutsche U.S. mutual funds ("Deutsche 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 DIMA 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.

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 Deutsche 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 DIMA's 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 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

VS2UI-3 (R-028389-4 8/15)

Dreyfus Investment Portfolios, MidCap Stock Portfolio

SEMIANNUAL REPORT June 30, 2015

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

Dreyfus Investment Portfolios,
MidCap Stock Portfolio

The Fund

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, 2015, through June 30, 2015. For information about how the fund performed during the reporting period, as well as general market perspectives, we provide a Discussion of Fund Performance on the pages that follow.

The U.S. stock market proved volatile on its way to posting modest gains over the first half of 2015. Investors were worried when the economic recovery stalled during the first quarter of the year due to unusually harsh winter weather, a strengthening U.S. dollar, and expected increases in short-term interest rates. These fears waned during the second quarter, when economic growth seemed to regain momentum. While a number of headwinds remained, investors were encouraged by better employment data, stronger housing markets, and stabilizing currency exchange rates.

We expect economic uncertainty and bouts of market volatility to persist over the near term as Europe continues to struggle with instability in Greece, China addresses a stubborn economic slowdown, geopolitical conflicts flare across the Middle East, and U.S. investors await the first in a series of short-term interest rate hikes. We remain more optimistic regarding the economy's long-term outlook, which we believe should be supported by improved consumer and business confidence as well as aggressively accommodative monetary policies from many of the world's major central banks. As always, we urge you to discuss these observations with your financial advisor, who can help you assess their implications for your investment portfolio.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona
President
The Dreyfus Corporation
July 15, 2015

DISCUSSION OF FUND PERFORMANCE

For the reporting period of January 1, 2015, through June 30, 2015, as provided by C. Wesley Boggs, William S. Cazalet, CAIA, and Ronald P. Gala, CFA, Portfolio Managers

Fund and Market Performance Overview

For the six-month period ended June 30, 2015, Dreyfus Investment Portfolios, MidCap Stock Portfolio's Initial shares produced a total return of 2.20%, and its Service shares produced a total return of 2.08%.[1] In comparison, the fund's benchmark, the Standard & Poor's MidCap 400® Index (the "S&P 400 Index"), produced a total return of 4.20% for the same period.[2]

Stocks posted moderately positive returns during the reporting period as the market digested previous gains amid a choppy U.S. economic recovery. Security selection shortfalls in the industrials, energy, and consumer staples sectors weighed on the fund's underperformance compared to its benchmark.

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 Digested Previous Gains

In contrast to robust employment gains and improved business and consumer confidence during much of 2014, the economic recovery proved more uneven over the first half of 2015. The U.S. economy contracted modestly during the first quarter of the year in the face of severe winter weather and a labor slowdown in West Coast ports. Global economic weakness further weighed on U.S. exporters when massive quantitative easing programs and lower interest rates in Europe and Japan caused the U.S. dollar to appreciate sharply against most foreign currencies. Meanwhile, sharply lower oil prices created challenges for energy producers. Fortunately, the economy seemed to get back on track in the spring, when labor markets resumed their vigorous gains, housing markets showed renewed signs of strength, oil prices rebounded, and currency exchange rates stabilized.

In this environment, broad measures of U.S. stock market performance repeatedly vacillated between gains and losses in early 2015 before stronger economic data supported higher stock prices in the spring. Midcap stocks fared particularly well, producing substantially higher returns than large-cap stocks, on average.

Security Selection Produced Mixed Results

The fund participated in the midcap stock market's mild advance during the first six months of 2015, but its relative performance was dampened by the underperformance of individual holdings in some market sectors. In the industrials sector, despite continued operational strength compared to its peers, Southwest Airlines gave back some of its 2014 gains when industry-wide concerns arose about increased capacity. In addition, several machinery producers lagged market averages in the midst of worries about the impact of sluggish global economic growth on order volumes. Among energy companies, offshore drilling equipment provider Helix Energy Solutions Group came under pressure when analysts reduced their earnings expectations due to lower commodity prices and capital spending cutbacks by oil producers.

In the consumer staples sector, concerns of increased supply as well as concerns that exports might be hurt by an outbreak of avian flu weighed on chicken producer Pilgrim's Pride. In the consumer discretionary market sector, apparel seller Kate Spade & Company reported disappointing sales, triggering stock price declines despite maintaining relatively strong earnings. The fund did have some success within the sector, however, as media programming provider Starz reported better-than-expected earnings, higher revenues, and improved cost controls.

The fund achieved better relative results in the information technology sector. Semiconductor manufacturer Skyworks Solutions exceeded analysts' earnings expectations and raised its future earnings guidance as a result of strong results in the wireless handset market. Moreover, a number of technology service providers produced above-average results for the reporting period. The fund's stock selection also proved successful in the health care sector, where medical devices maker Boston Scientific gained value after settling a lawsuit with an industry rival. We eliminated the fund's position in Boston Scientific during the reporting period.

Finding Ample Opportunities Using a Disciplined Process

As of the reporting period's end, our quantitative models have continued to identify what we believe are attractive investment opportunities across a broad spectrum of midcap companies and industry groups. Indeed, recent bouts of volatility have provided opportunities to purchase the stocks of companies ranked highly by our process. To the extent the fund's holdings reach what we perceive to be fuller valuations, we expect to replace them with high quality companies that display then-currently attractive valuations in our model. In addition, we continue to maintain a broadly diversified portfolio.

July 15, 2015

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, 2015 to June 30, 2015. 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, 2015

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.21	$ 5.46
Ending value (after expenses)	$1,022.00	$1,020.80

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

Using the SEC's method to compare expenses

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

Expenses and Value of a $1,000 Investment
assuming a hypothetical 5% annualized return for the six months ended June 30, 2015

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.21	$ 5.46
Ending value (after expenses)	$1,020.63	$1,019.39

† *Expenses are equal to the fund's annualized expense ratio of .84% for Initial Shares and 1.09% for Service Shares, multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS

June 30, 2015 (Unaudited)

Common Stocks—99.9%	Shares		Value ($)
Automobiles & Components—1.0%			
Thor Industries	36,200		**2,037,336**
Banks—5.6%			
Associated Banc-Corp	121,000		2,452,670
BancorpSouth	82,000		2,112,320
Cathay General Bancorp	60,900		1,976,205
Cullen/Frost Bankers	17,500		1,375,150
East West Bancorp	5,900		264,438
First Horizon National	202,900	a	3,179,443
			11,360,226
Capital Goods—9.3%			
GATX	36,900		1,961,235
Huntington Ingalls Industries	28,100		3,163,779
IDEX	40,800		3,206,064
Lincoln Electric Holdings	51,300		3,123,657
Spirit Aerosystems Holdings, Cl. A	49,100	b	2,705,901
SPX	3,100		224,409
Timken	76,200		2,786,634
Trinity Industries	70,500	a	1,863,315
			19,034,994
Commercial & Professional Services—1.3%			
Deluxe	35,900		2,225,800
IHS, Cl. A	3,400	b	437,342
			2,663,142
Consumer Durables & Apparel—4.3%			
Brunswick	63,600		3,234,696
Carter's	30,900		3,284,670
Kate Spade & Company	104,100	b	2,242,314
			8,761,680
Consumer Services—.4%			
Brinker International	8,800		507,320
Wyndham Worldwide	4,900		401,359
			908,679

Common Stocks (continued)	Shares		Value ($)
Diversified Financials—4.7%			
Affiliated Managers Group	9,780	b	2,137,908
CBOE Holdings	12,600		720,972
Navient	17,700		322,317
SEI Investments	69,600		3,412,488
T. Rowe Price Group	2,500		194,325
Waddell & Reed Financial, Cl. A	60,700		2,871,717
			9,659,727
Energy—6.8%			
Cameron International	21,000	b	1,099,770
Dril-Quip	7,300	b	549,325
Helix Energy Solutions Group	137,900	b	1,741,677
HollyFrontier	40,800		1,741,752
Oceaneering International	38,700		1,803,033
Oil States International	10,900	b	405,807
Tesoro	11,600		979,156
Western Refining	61,300		2,673,906
World Fuel Services	61,000		2,924,950
			13,919,376
Food & Staples Retailing—1.3%			
SUPERVALU	319,000	b	**2,580,710**
Food, Beverage & Tobacco—4.2%			
Bunge	28,300		2,484,740
Ingredion	42,900		3,423,849
Lancaster Colony	2,300		208,955
Pilgrim's Pride	104,300	a	2,395,771
			8,513,315
Health Care Equipment & Services—8.2%			
Align Technology	24,800	b	1,555,208
DENTSPLY International	11,900		613,445
Edwards Lifesciences	12,400	b	1,766,132
Health Net	59,500	b	3,815,140

Common Stocks (continued)	Shares	Value ($)
Health Care Equipment & Services (continued)		
Hologic	44,400 [b]	1,689,864
Teleflex	28,600	3,873,870
Universal Health Services, Cl. B	18,400	2,614,640
VCA	12,900 [b]	701,824
		16,630,123
Insurance—4.5%		
American Financial Group	4,400	286,176
Everest Re Group	21,100	3,840,411
Reinsurance Group of America	14,400	1,366,128
The Hanover Insurance Group	29,300	2,169,079
W.R. Berkley	30,000	1,557,900
		9,219,694
Materials—4.8%		
Alcoa	199,100	2,219,965
Ball	11,700	820,755
Cabot	69,900	2,606,571
Compass Minerals International	3,700	303,918
PolyOne	38,500	1,508,045
Sealed Air	19,000	976,220
Steel Dynamics	66,700	1,381,691
		9,817,165
Media—2.9%		
John Wiley & Sons, Cl. A	24,900	1,353,813
New York Times, Cl. A	136,800	1,867,320
Starz, Cl. A	62,000 [b]	2,772,640
		5,993,773
Pharmaceuticals, Biotech & Life Sciences—3.7%		
Agilent Technologies	22,900	883,482
Charles River Laboratories International	33,400 [b]	2,349,356
Mettler-Toledo International	12,700 [b]	4,336,542
		7,569,380

Common Stocks (continued)	Shares		Value ($)
Real Estate—6.7%			
Camden Property Trust	16,100	c	1,195,908
CBL & Associates Properties	90,300	c	1,462,860
Corrections Corporation of America	75,735	c	2,505,314
Lamar Advertising, Cl. A	16,400		942,672
LaSalle Hotel Properties	10,100	c	358,146
National Retail Properties	38,600	c	1,351,386
Taubman Centers	43,400	c	3,016,300
Weingarten Realty Investors	84,300	c	2,755,767
			13,588,353
Retailing—4.1%			
Big Lots	67,800		3,050,322
Foot Locker	63,000		4,221,630
Murphy USA	4,300	b	240,026
O'Reilly Automotive	3,460	b	781,891
			8,293,869
Semiconductors & Semiconductor Equipment—3.1%			
Fairchild Semiconductor International	15,100	b	262,438
Integrated Device Technology	140,500	b	3,048,850
Skyworks Solutions	28,200		2,935,620
			6,246,908
Software & Services—10.8%			
ANSYS	29,500	b	2,691,580
Broadridge Financial Solutions	4,900		245,049
Computer Sciences	42,000		2,756,880
Convergys	50,800		1,294,892
DST Systems	28,644		3,608,571
Jack Henry & Associates	30,300		1,960,410
NeuStar, Cl. A	56,100	a,b	1,638,681
PTC	78,800	b	3,232,376
Rovi	105,400	a,b	1,681,130

Common Stocks (continued)	Shares		Value ($)
Software & Services (continued)			
VeriSign	32,500	a,b	2,005,900
WEX	8,300	b	945,951
			22,061,420
Technology Hardware & Equipment—4.1%			
Arrow Electronics	37,900	b	2,114,820
InterDigital	51,300		2,918,457
Polycom	154,900	b	1,772,056
Vishay Intertechnology	124,700		1,456,496
			8,261,829
Transportation—4.2%			
Alaska Air Group	34,200		2,203,506
JetBlue Airways	56,300	a,b	1,168,788
Old Dominion Freight Line	45,500	b	3,121,527
Southwest Airlines	61,200		2,025,108
			8,518,929
Utilities—3.9%			
Atmos Energy	29,100		1,492,248
Entergy	5,300		373,650
IDACORP	47,200		2,649,808
PNM Resources	30,500		750,300
Vectren	5,400		207,792
Westar Energy	75,200		2,573,344
			8,047,142
Total Common Stocks (cost $182,674,685)			**203,687,770**

Other Investment—.2%			
Registered Investment Company;			
Dreyfus Institutional Preferred Plus Money Market Fund (cost $523,527)	523,527	d	**523,527**

Investment of Cash Collateral for Securities Loaned—3.2%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Fund (cost $6,442,062)	6,442,062 [d]	**6,442,062**
Total Investments (cost $189,640,274)	**103.3%**	**210,653,359**
Liabilities, Less Cash and Receivables	**(3.3%)**	**(6,726,515)**
Net Assets	**100.0%**	**203,926,844**

[a] *Security, or portion thereof, on loan. At June 30, 2015, the value of the fund's securities on loan was $9,088,153 and the value of the collateral held by the fund was $9,275,265, consisting of cash collateral of $6,442,062 and U.S. Government & Agency securities valued at $2,833,203.*

[b] *Non-income producing security.*

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

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

Portfolio Summary (Unaudited)†

	Value (%)		Value (%)
Software & Services	10.8	Technology Hardware & Equipment	4.1
Capital Goods	9.3	Utilities	3.9
Health Care Equipment & Services	8.2	Pharmaceuticals, Biotech & Life Sciences	3.7
Energy	6.8	Money Market Investments	3.4
Real Estate	6.7	Semiconductors & Semiconductor Equipment	3.1
Banks	5.6	Media	2.9
Materials	4.8	Commercial & Professional Services	1.3
Diversified Financials	4.7	Food & Staples Retailing	1.3
Insurance	4.5	Automobiles & Components	1.0
Consumer Durables & Apparel	4.3	Consumer Services	.4
Food, Beverage & Tobacco	4.2		**103.3**
Transportation	4.2		
Retailing	4.1		

† *Based on net assets.*

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2015 (Unaudited)

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments (including securities on loan, valued at $9,088,153)—Note 1(b):		
Unaffiliated issuers	182,674,685	203,687,770
Affiliated issuers	6,965,589	6,965,589
Cash		99,232
Dividends and securities lending income receivable		223,054
Prepaid expenses		2,059
		210,977,704
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(b)		147,498
Liability for securities on loan—Note 1(b)		6,442,062
Payable for shares of Beneficial Interest redeemed		409,295
Accrued expenses		52,005
		7,050,860
Net Assets ($)		**203,926,844**
Composition of Net Assets ($):		
Paid-in capital		173,665,066
Accumulated undistributed investment income—net		700,426
Accumulated net realized gain (loss) on investments		8,548,267
Accumulated net unrealized appreciation (depreciation) on investments		21,013,085
Net Assets ($)		**203,926,844**

Net Asset Value Per Share

	Initial Shares	Service Shares
Net Assets ($)	156,178,299	47,748,545
Shares Outstanding	7,880,097	2,415,400
Net Asset Value Per Share ($)	**19.82**	**19.77**

See notes to financial statements.

STATEMENT OF OPERATIONS

Six Months Ended June 30, 2015 (Unaudited)

Investment Income ($):	
Income:	
Cash dividends:	
Unaffiliated issuers	1,510,515
Affiliated issuers	767
Income from securities lending—Note 1(b)	60,367
Total Income	**1,571,649**
Expenses:	
Management fee—Note 3(a)	762,024
Distribution fees—Note 3(b)	53,439
Trustees' fees and expenses—Note 3(c)	31,312
Professional fees	28,295
Prospectus and shareholders' reports	12,358
Custodian fees—Note 3(b)	6,819
Loan commitment fees—Note 2	720
Shareholder servicing costs—Note 3(b)	691
Interest expense—Note 2	58
Miscellaneous	12,243
Total Expenses	**907,959**
Less—reduction in fees due to earnings credits—Note 3(b)	(2)
Net Expenses	**907,957**
Investment Income—Net	**663,692**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	8,579,392
Net unrealized appreciation (depreciation) on investments	(5,015,147)
Net Realized and Unrealized Gain (Loss) on Investments	**3,564,245**
Net Increase in Net Assets Resulting from Operations	**4,227,937**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended June 30, 2015 (Unaudited)	Year Ended December 31, 2014
Operations ($):		
Investment income—net	663,692	1,126,667
Net realized gain (loss) on investments	8,579,392	31,053,585
Net unrealized appreciation (depreciation) on investments	(5,015,147)	(11,297,380)
Net Increase (Decrease) in Net Assets Resulting from Operations	**4,227,937**	**20,882,872**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(944,587)	(1,600,836)
Service Shares	(179,129)	(180,578)
Net realized gain on investments:		
Initial Shares	(24,657,461)	(868,833)
Service Shares	(6,393,134)	(126,481)
Total Dividends	**(32,174,311)**	**(2,776,728)**
Beneficial Interest Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	5,979,969	9,644,215
Service Shares	18,788,849	16,589,102
Dividends reinvested:		
Initial Shares	25,602,048	2,469,669
Service Shares	6,572,263	307,059
Cost of shares redeemed:		
Initial Shares	(13,886,135)	(25,817,267)
Service Shares	(6,878,417)	(8,124,921)
Increase (Decrease) in Net Assets from Beneficial Interest Transactions	**36,178,577**	**(4,932,143)**
Total Increase (Decrease) in Net Assets	**8,232,203**	**13,174,001**
Net Assets ($):		
Beginning of Period	195,694,641	182,520,640
End of Period	**203,926,844**	**195,694,641**
Undistributed investment income—net	700,426	1,160,450

	Six Months Ended June 30, 2015 (Unaudited)	Year Ended December 31, 2014
Capital Share Transactions:		
Initial Shares		
Shares sold	278,377	444,102
Shares issued for dividends reinvested	1,278,824	117,940
Shares redeemed	(646,663)	(1,194,189)
Net Increase (Decrease) in Shares Outstanding	**910,538**	**(632,147)**
Service Shares		
Shares sold	880,964	749,291
Shares issued for dividends reinvested	328,942	14,678
Shares redeemed	(327,752)	(375,381)
Net Increase (Decrease) in Shares Outstanding	**882,154**	**388,588**

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 hadreinvested 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, 2015 (Unaudited)	Year Ended December 31, 2014	2013	2012	2011	2010
Per Share Data ($):						
Net asset value, beginning of period	23.03	20.87	15.68	13.16	13.17	10.46
Investment Operations:						
Investment income—net[a]	.07	.14	.20	.23	.06	.06
Net realized and unrealized gain (loss) on investments	.48	2.35	5.24	2.36	.00[b]	2.76
Total from Investment Operations	.55	2.49	5.44	2.59	.06	2.82
Distributions:						
Dividends from investment income—net	(.14)	(.21)	(.25)	(.07)	(.07)	(.11)
Dividends from net realized gain on investments	(3.62)	(.12)	–	–	–	–
Total Distributions	(3.76)	(.33)	(.25)	(.07)	(.07)	(.11)
Net asset value, end of period	19.82	23.03	20.87	15.68	13.16	13.17
Total Return (%)	2.20[c]	12.09	34.99	19.67	.40	27.10
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	.84[d]	.85	.86	.85	.86	.84
Ratio of net expenses to average net assets	.84[d]	.85	.86	.85	.86	.84
Ratio of net investment income to average net assets	.70[d]	.64	1.11	1.58	.50	.54
Portfolio Turnover Rate	41.55[c]	83.06	68.72	73.96	81.48	79.28
Net Assets, end of period ($ x 1,000)	156,178	160,482	158,682	128,410	123,187	147,155

[a] *Based on average shares outstanding.*
[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, 2015 (Unaudited)	Year Ended December 31, 2014	2013	2012	2011	2010
Per Share Data ($):						
Net asset value, beginning of period	22.97	20.83	15.65	13.14	13.16	10.46
Investment Operations:						
Investment income—net[a]	.05	.09	.16	.19	.02	.05
Net realized and unrealized gain (loss) on investments	.47	2.34	5.23	2.35	.01	2.76
Total from Investment Operations	.52	2.43	5.39	2.54	.03	2.81
Distributions:						
Dividends from investment income—net	(.10)	(.17)	(.21)	(.03)	(.05)	(.11)
Dividends from net realized gain on investments	(3.62)	(.12)	–	–	–	–
Total Distributions	(3.72)	(.29)	(.21)	(.03)	(.05)	(.11)
Net asset value, end of period	19.77	22.97	20.83	15.65	13.14	13.16
Total Return (%)	2.08[b]	11.76	34.70	19.34	.20	26.94
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	1.09[c]	1.10	1.11	1.10	1.11	1.09
Ratio of net expenses to average net assets	1.09[c]	1.10	1.11	1.10	1.11	.97
Ratio of net investment income to average net assets	.48[c]	.40	.86	1.32	.18	.40
Portfolio Turnover Rate	41.55[b]	83.06	68.72	73.96	81.48	79.28
Net Assets, end of period ($ x 1,000)	47,749	35,213	23,838	17,836	17,050	19,586

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

NOTE 1—Significant Accounting Policies:

MidCap Stock Portfolio (the "fund") is a separate diversified series of Dreyfus Investment Portfolios (the "Company"), which is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company and operates as a series company currently offering four series, including 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'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 Dreyfus, is the distributor of the fund's shares, which are sold to the public 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, 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 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 ("ASC") 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. For open short positions, asked prices are 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.

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. These securities are generally categorized within Level 2 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, 2015 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†	203,687,770	–	–	**203,687,770**
Mutual Funds	6,965,589	–	–	**6,965,589**

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

At June 30, 2015, 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 Dreyfus, 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, 2015, The Bank of New York Mellon earned $17,407 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, 2015, were as follows:

Affiliated Investment Company	Value 12/31/2014 ($)	Purchases ($)	Sales ($)	Value 6/30/2015 ($)	Net Assets (%)
Dreyfus Institutional Preferred Plus Money Market Fund	1,336,380	16,044,817	16,857,670	523,527	.2
Dreyfus Institutional Cash Advantage Fund	5,489,803	31,936,854	30,984,595	6,442,062	3.2
Total	**6,826,183**	**47,981,671**	**47,842,265**	**6,965,589**	**3.4**

(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, 2015, 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, 2015, the fund did not incur any interest or penalties.

Each tax year in the three-year period ended December 31, 2014 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, 2014 was as follows: ordinary income $1,781,414 and long-term capital gains $995,314. The tax character of current year distributions will be determined at the end of the current fiscal year.

NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in a $430 million unsecured credit facility led by Citibank, N.A. and a $300 million unsecured credit facility provided by The Bank of New York Mellon (each, a "Facility"), each to be utilized primarily for temporary or emergency purposes, including the financing of redemptions. In connection therewith, the fund has agreed to pay its pro rata portion of commitment fees for each Facility. Interest is charged to the fund based on rates determined pursuant to the terms of the respective Facility at the time of borrowing.

The average amount of borrowings outstanding under the Facilities during the period ended June 30, 2015, was approximately $10,500 with a related weighted average annualized interest rate of 1.12%.

NOTE 3—Management Fee and Other Transactions with Affiliates:

(a) Pursuant to a management agreement with Dreyfus, 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, 2015, Service shares were charged $53,439 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 Dreyfus, 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, 2015, the fund was charged $560 for transfer agency services and $39 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, 2015, the fund was charged $6,819 pursuant to the custody agreement.

During the period ended June 30, 2015, the fund was charged $6,240 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 $128,720, Distribution Plan fees $9,844, custodian fees $5,553, Chief Compliance Officer fees $3,169 and transfer agency fees $212.

(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, 2015, amounted to $89,757,991 and $83,960,702, respectively.

At June 30, 2015, accumulated net unrealized appreciation on investments was $21,013,085, consisting of $31,503,237 gross unrealized appreciation and $10,490,152 gross unrealized depreciation.

At June 30, 2015, 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.

0174SA0615

The Dreyfus Socially Responsible Growth Fund, Inc.

SEMIANNUAL REPORT June 30, 2015

BNY MELLON

Dreyfus

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

Contents

THE FUND

FOR MORE INFORMATION

The Dreyfus Socially Responsible Growth Fund, Inc.

The Fund

A LETTER FROM THE PRESIDENT

Dear Shareholder:

We are pleased to present this semiannual report for The Dreyfus Socially Responsible Growth Fund, covering the six-month period from January 1, 2015, through June 30, 2015. For information about how the fund performed during the reporting period, as well as general market perspectives, we provide a Discussion of Fund Performance on the pages that follow.

The U.S. stock market proved volatile on its way to posting modest gains over the first half of 2015. Investors were worried when the economic recovery stalled during the first quarter of the year due to unusually harsh winter weather, a strengthening U.S. dollar, and expected increases in short-term interest rates. These fears waned during the second quarter, when economic growth seemed to regain momentum. While a number of headwinds remained, investors were encouraged by better employment data, stronger housing markets, and stabilizing currency exchange rates.

We expect economic uncertainty and bouts of market volatility to persist over the near term as Europe continues to struggle with instability in Greece, China addresses a stubborn economic slowdown, geopolitical conflicts flare across the Middle East, and U.S. investors await the first in a series of short-term interest rate hikes. We remain more optimistic regarding the economy's long-term outlook, which we believe should be supported by improved consumer and business confidence as well as aggressively accommodative monetary policies from many of the world's major central banks. As always, we urge you to discuss these observations with your financial advisor, who can help you assess their implications for your investment portfolio.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona
President
The Dreyfus Corporation
July 15, 2015

DISCUSSION OF FUND PERFORMANCE

For the reporting period of January 1, 2015, through June 30, 2015, as provided by C. Wesley Boggs, William S. Cazalet, CAIA, and Ronald P. Gala, CFA, Portfolio Managers

Fund and Market Performance Overview

For the six-month period ended June 30, 2015, The Dreyfus Socially Responsible Growth Fund's Initial shares produced a total return of 0.07%, and the fund's Service shares returned –0.05%.[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 1.23% for the same period.[2]

U.S. equities advanced modestly over the first half of 2015 amid choppy economic growth. The fund underperformed its benchmark, mainly due to relative weakness among stocks exhibiting attractive valuations and low volatility.

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.

Choppy Economic Growth Constrained Equity Gains

The U.S. economic recovery proved uneven over the first half of 2015. The economy contracted modestly during the first quarter in the face of severe winter weather and a labor slowdown in West Coast ports. Global economic weakness further weighed on U.S. exporters when massive quantitative easing programs in overseas markets caused the U.S. dollar to appreciate sharply against most foreign currencies. Meanwhile, low oil prices created challenges for energy producers. In this environment, the S&P 500 Index repeatedly vacillated between gains and losses over the first few months of the year.

The economy seemed to get back on track in the spring, when labor markets resumed their gains, housing markets showed renewed strength, oil prices rebounded, and currency exchange rates stabilized. Consequently, stock prices moved higher through mid-June until concerns regarding a debt crisis in Greece derailed the market's advance.

Growth Factors More Predictive than Valuations

Investors favored companies exhibiting high levels of price and earnings momentum over the reporting period, while more value-oriented and lower volatility stocks lagged market averages. For example, in the consumer discretionary sector, the fund did not hold Internet retailer Amazon.com which ranked poorly on our valuation and low volatility criteria. In addition, the company's environmental, social, and corporate governance (ESG) rating was downgraded due to concerns regarding corporate governance, toxic emissions, labor relations, and health and safety factors.

In the information technology sector, computer hardware maker Hewlett-Packard reported disappointing quarterly earnings stemming from foreign currency exchange headwinds and a weak outlook. The single greatest distractor from performance over the reporting period was the fund's top performer in 2014, Southwest Airlines, which fell sharply amid rebounding fuel prices and increased industry capacity.

The fund achieved better relative performance in the health care sector, where our security selection process identified several fast-growing companies in the biotechnology and life sciences industries. Most notably, biopharmaceutical developer Gilead Sciences significantly outperformed the market after announcing that it beat revenue expectations and raised its future revenue guidance. Medical insurer Cigna climbed due to strong financial results and, later in the reporting period, a takeover offer from a former rival. A number of strong stock selections in the consumer discretionary sector further supported the fund's results compared to the benchmark.

The fund's ESG criteria also added value. We established a new investment in health care services provider Henry Schein, which is ranked highly in energy efficiency, product quality and safety, and labor management. Conversely, we eliminated a position in data storage specialist Seagate Technology after its ESG rating fell due to compensation packages that fail to link employees' interests to the company's performance.

Focusing on Value, Quality, and Sustainability

Although our quantitative process does not directly consider macroeconomic factors, it is worth noting that the U.S. economy has regained momentum. As of midyear, our models have continued to identify opportunities meeting our criteria for attractive valuations, earnings quality, behavioral factors, and social responsibility. We have found such stocks across all of the market sectors represented in the S&P 500 Index, enabling the fund to maintain a generally sector-neutral investment posture.

July 15, 2015

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, 2015 to June 30, 2015. 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, 2015

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.27	$ 5.50
Ending value (after expenses)	$1,000.70	$999.50

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

Using the SEC's method to compare expenses

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

Expenses and Value of a $1,000 Investment
assuming a hypothetical 5% annualized return for the six months ended June 30, 2015

	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, 2015 (Unaudited)

Common Stocks—98.9%	Shares		Value ($)
Banks—3.6%			
Comerica	106,900		5,486,108
People's United Financial	256,700		4,161,107
			9,647,215
Capital Goods—6.0%			
3M	34,950		5,392,785
Caterpillar	5,000		424,100
Cummins	10,000		1,311,900
General Electric	71,350		1,895,770
Lockheed Martin	15,950		2,965,105
Parker Hannifin	8,600		1,000,438
Snap-on	17,850		2,842,612
			15,832,710
Consumer Durables & Apparel—.5%			
PVH	10,800		**1,244,160**
Consumer Services—2.0%			
Marriott International, Cl. A	71,750		**5,337,482**
Diversified Financials—5.5%			
American Express	45,550		3,540,146
Franklin Resources	61,100		2,995,733
Legg Mason	34,400		1,772,632
Northern Trust	20,200		1,544,492
T. Rowe Price Group	62,250		4,838,693
			14,691,696
Energy—7.6%			
Baker Hughes	25,400		1,567,180
ConocoPhillips	64,950		3,988,579
Exxon Mobil	4,600		382,720
Hess	12,950		866,096
Marathon Petroleum	95,500		4,995,605
National Oilwell Varco	33,050		1,595,654
Noble	44,000	a	677,160
Phillips 66	19,450		1,566,892

Common Stocks (continued)	Shares	Value ($)
Energy (continued)		
Spectra Energy	132,850	4,330,910
Tesoro	2,900	244,789
		20,215,585
Food, Beverage & Tobacco—4.5%		
Campbell Soup	30,400 [a]	1,448,560
Coca-Cola Enterprises	93,150	4,046,436
Mondelez International, Cl. A	103,900	4,274,446
PepsiCo	22,800	2,128,152
		11,897,594
Health Care Equipment & Services—5.2%		
AmerisourceBergen	39,400	4,189,796
Cardinal Health	14,100	1,179,465
Cigna	15,000	2,430,000
Edwards Lifesciences	14,200 [b]	2,022,506
Henry Schein	27,400 [b]	3,894,088
		13,715,855
Household & Personal Products—2.4%		
Clorox	36,650	3,812,333
Kimberly-Clark	24,400	2,585,668
		6,398,001
Insurance—5.7%		
ACE	43,400	4,412,912
Genworth Financial, Cl. A	83,200 [b]	629,824
Marsh & McLennan	80,300	4,553,010
Travelers	56,900	5,499,954
		15,095,700
Materials—6.2%		
Alcoa	336,350	3,750,302
Ball	60,050	4,212,507
Ecolab	11,950	1,351,187
International Flavors & Fragrances	41,800	4,568,322
Sigma-Aldrich	17,750	2,473,462
		16,355,780

Common Stocks (continued)	Shares		Value ($)
Media—5.5%			
DIRECTV	42,600	b	3,952,854
Discovery Communications, Cl. A	57,000	a,b	1,895,820
Scripps Networks Interactive, Cl. A	1,300		84,981
Time Warner	46,100		4,029,601
Time Warner Cable	16,550		2,948,714
Walt Disney	15,900		1,814,826
			14,726,796
Pharmaceuticals, Biotech & Life Sciences—13.1%			
Agilent Technologies	108,650		4,191,717
AstraZeneca, ADR	10,150	a	646,656
Biogen	10,350	b	4,180,779
Gilead Sciences	66,250		7,756,550
Mallinckrodt	8,500	b	1,000,620
Merck & Co.	94,600		5,385,578
PerkinElmer	52,500		2,763,600
Waters	33,250	b	4,268,635
Zoetis	95,900		4,624,298
			34,818,433
Retailing—1.8%			
Best Buy	8,200		267,402
Gap	99,900		3,813,183
Staples	31,900		488,389
Tiffany & Co.	2,700		247,860
			4,816,834
Semiconductors & Semiconductor Equipment—1.9%			
Intel	71,500		2,174,672
Skyworks Solutions	28,100		2,925,210
			5,099,882
Software & Services—7.6%			
Accenture, Cl. A	50,950		4,930,941
Citrix Systems	12,000	b	841,920

Common Stocks (continued)	Shares		Value ($)
Software & Services (continued)			
Intuit	45,150		4,549,766
Microsoft	101,450		4,479,018
Symantec	50		1,163
Teradata	95,300	a,b	3,526,100
Xerox	166,000		1,766,240
			20,095,148
Technology Hardware & Equipment—9.8%			
Apple	104,400		13,094,370
Cisco Systems	80,375		2,207,098
Corning	280,200		5,528,346
EMC	51,625		1,362,384
Hewlett-Packard	125,300		3,760,253
			25,952,451
Telecommunication Services—1.5%			
CenturyLink	132,100	a	**3,881,098**
Transportation—3.2%			
Expeditors International of Washington	14,200		654,691
Norfolk Southern	29,650		2,590,224
Southwest Airlines	159,300		5,271,237
			8,516,152
Utilities—5.3%			
Exelon	171,900		5,401,098
NextEra Energy	59,700		5,852,391
Public Service Enterprise Group	74,500		2,926,360
			14,179,849
Total Common Stocks (cost $211,079,186)			**262,518,421**

Other Investment—1.1%			
Registered Investment Company;			
Dreyfus Institutional Preferred Plus Money Market Fund (cost $2,842,492)	2,842,492	c	**2,842,492**

Investment of Cash Collateral for Securities Loaned—1.8%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Fund (cost $4,898,035)	4,898,035 [c]	**4,898,035**
Total Investments (cost $218,819,713)	**101.8%**	**270,258,948**
Liabilities, Less Cash and Receivables	**(1.8%)**	**(4,872,316)**
Net Assets	**100.0%**	**265,386,632**

ADR—American Depository Receipts

[a] *Security, or portion thereof, on loan. At June 30, 2015, the value of the fund's securities on loan was $10,014,064 and the value of the collateral held by the fund was $10,245,931, consisting of cash collateral of $4,898,035 and U.S. Government and Agency securities valued at $5,347,896.*

[b] *Non-income producing security.*

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

Portfolio Summary (Unaudited)†

	Value (%)		Value (%)
Pharmaceuticals, Biotech & Life Sciences	13.1	Food, Beverage & Tobacco	4.5
Technology Hardware & Equipment	9.8	Banks	3.6
Energy	7.6	Transportation	3.2
Software & Services	7.6	Money Market Investments	2.9
Materials	6.2	Household & Personal Products	2.4
Capital Goods	6.0	Consumer Services	2.0
Insurance	5.7	Semiconductors & Semiconductor Equipment	1.9
Diversified Financials	5.5	Retailing	1.8
Media	5.5	Telecommunication Services	1.5
Utilities	5.3	Consumer Durables & Apparel	.5
Health Care Equipment & Services	5.2		**101.8**

† *Based on net assets.*

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2015 (Unaudited)

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments (including securities on loan, valued at $10,014,064)—Note 1(b):		
Unaffiliated issuers	211,079,186	262,518,421
Affiliated issuers	7,740,527	7,740,527
Cash		111,904
Dividends and securities lending income receivable		289,842
Prepaid expenses		7,312
		270,668,006
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(c)		183,185
Liability for securities on loan—Note 1(b)		4,898,035
Payable for shares of Common Stock redeemed		129,316
Accrued expenses		70,838
		5,281,374
Net Assets ($)		**265,386,632**
Composition of Net Assets ($):		
Paid-in capital		195,890,538
Accumulated undistributed investment income—net		1,520,631
Accumulated net realized gain (loss) on investments		16,536,228
Accumulated net unrealized appreciation (depreciation) on investments		51,439,235
Net Assets ($)		**265,386,632**

Net Asset Value Per Share

	Initial Shares	Service Shares
Net Assets ($)	254,622,486	10,764,146
Shares Outstanding	6,388,637	272,371
Net Asset Value Per Share ($)	**39.86**	**39.52**

See notes to financial statements.

STATEMENT OF OPERATIONS

Six Months Ended June 30, 2015 (Unaudited)

Investment Income ($):	
Income:	
Cash dividends:	
Unaffiliated issuers	2,715,725
Affiliated issuers	1,019
Income from securities lending—Note 1(b)	2,037
Total Income	**2,718,781**
Expenses:	
Management fee—Note 3(a)	1,034,191
Prospectus and shareholders' reports	40,363
Professional fees	40,036
Directors' fees and expenses—Note 3(d)	37,182
Distribution fees—Note 3(b)	13,538
Custodian fees—Note 3(c)	13,049
Shareholder servicing costs—Note 3(c)	930
Loan commitment fees—Note 2	693
Miscellaneous	15,366
Total Expenses	**1,195,348**
Less—reduction in fees due to earnings credits—Note 3(c)	(3)
Net Expenses	**1,195,345**
Investment Income—Net	**1,523,436**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	16,562,971
Net unrealized appreciation (depreciation) on investments	(17,566,613)
Net Realized and Unrealized Gain (Loss) on Investments	**(1,003,642)**
Net Increase in Net Assets Resulting from Operations	**519,794**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended June 30, 2015 (Unaudited)	Year Ended December 31, 2014
Operations ($):		
Investment income—net	1,523,436	2,774,159
Net realized gain (loss) on investments	16,562,971	35,125,017
Net unrealized appreciation (depreciation) on investments	(17,566,613)	(3,224,985)
Net Increase (Decrease) in Net Assets Resulting from Operations	**519,794**	**34,674,191**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(2,689,794)	(2,824,636)
Service Shares	(85,867)	(79,619)
Net realized gain on investments:		
Initial Shares	(33,743,127)	(18,473,730)
Service Shares	(1,384,964)	(647,248)
Total Dividends	**(37,903,752)**	**(22,025,233)**
Capital Stock Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	7,666,274	25,341,730
Service Shares	1,076,624	1,819,641
Dividends reinvested:		
Initial Shares	36,432,921	21,298,366
Service Shares	1,470,831	726,867
Cost of shares redeemed:		
Initial Shares	(24,047,765)	(53,057,045)
Service Shares	(943,572)	(1,143,249)
Increase (Decrease) in Net Assets from Capital Stock Transactions	**21,655,313**	**(5,013,690)**
Total Increase (Decrease) in Net Assets	**(15,728,645)**	**7,635,268**
Net Assets ($):		
Beginning of Period	281,115,277	273,480,009
End of Period	**265,386,632**	**281,115,277**
Undistributed investment income—net	1,520,631	2,772,856

	Six Months Ended June 30, 2015 (Unaudited)	Year Ended December 31, 2014
Capital Share Transactions:		
Initial Shares		
Shares sold	175,022	572,802
Shares issued for dividends reinvested	885,584	514,577
Shares redeemed	(556,199)	(1,207,470)
Net Increase (Decrease) in Shares Outstanding	**504,407**	**(120,091)**
Service Shares		
Shares sold	25,503	41,632
Shares issued for dividends reinvested	36,032	17,672
Shares redeemed	(22,407)	(26,392)
Net Increase (Decrease) in Shares Outstanding	**39,128**	**32,912**

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, 2015 (Unaudited)	Year Ended December 31, 2014	2013	2012	2011	2010
Per Share Data ($):						
Net asset value, beginning of period	45.97	44.09	33.24	29.91	29.90	26.26
Investment Operations:						
Investment income—net[a]	.24	.45	.46	.44	.24	.25
Net realized and unrealized gain (loss) on investments	(.01)	5.07	10.87	3.15	.04	3.62
Total from Investment Operations	.23	5.52	11.33	3.59	.28	3.87
Distributions:						
Dividends from investment income—net	(.47)	(.48)	(.48)	(.26)	(.27)	(.23)
Dividends from net realized gain on investments	(5.87)	(3.16)	–	–	–	–
Total Distributions	(6.34)	(3.64)	(.48)	(.26)	(.27)	(.23)
Net asset value, end of period	39.86	45.97	44.09	33.24	29.91	29.90
Total Return (%)	.07[b]	13.45	34.34	11.98	.90	14.82
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	.86[c]	.84	.86	.85	.85	.89
Ratio of net expenses to average net assets	.86[c]	.84	.86	.85	.85	.89
Ratio of net investment income to average net assets	1.11[c]	1.02	1.19	1.34	.80	.93
Portfolio Turnover Rate	29.61[b]	45.05	38.81	48.84	67.88	32.75
Net Assets, end of period ($ x 1,000)	254,622	270,483	264,713	207,383	208,013	227,893

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

Service Shares	Six Months Ended June 30, 2015 (Unaudited)	Year Ended December 31, 2014	2013	2012	2011	2010
Per Share Data ($):						
Net asset value, beginning of period	45.58	43.76	33.01	29.70	29.71	26.10
Investment Operations:						
Investment income—net[a]	.18	.33	.36	.36	.17	.18
Net realized and unrealized gain (loss) on investments	(.01)	5.04	10.78	3.13	.02	3.60
Total from Investment Operations	.17	5.37	11.14	3.49	.19	3.78
Distributions:						
Dividends from investment income—net	(.36)	(.39)	(.39)	(.18)	(.20)	(.17)
Dividends from net realized gain on investments	(5.87)	(3.16)	–	–	–	–
Total Distributions	(6.23)	(3.55)	(.39)	(.18)	(.20)	(.17)
Net asset value, end of period	39.52	45.58	43.76	33.01	29.70	29.71
Total Return (%)	(.05)[b]	13.13	33.99	11.70	.65	14.54
Ratios/Supplemental Data (%):						
Ratio of total expenses to average net assets	1.11[c]	1.09	1.11	1.10	1.10	1.14
Ratio of net expenses to average net assets	1.11[c]	1.09	1.11	1.10	1.10	1.14
Ratio of net investment income to average net assets	.86[c]	.76	.93	1.09	.55	.68
Portfolio Turnover Rate	29.61[b]	45.05	38.81	48.84	67.88	32.75
Net Assets, end of period ($ x 1,000)	10,764	10,632	8,767	6,552	6,167	6,494

[a] *Based on average shares outstanding.*
[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 is only offered to separate accounts established by insurance companies to fund variable annuity contracts and variable life insurance policies. The fund's investment objective is to seek to provide capital growth. 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 Dreyfus, is the distributor of the fund's shares, which are sold to the public 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. Each class of shares has identical rights and privileges, except with respect to the Distribution Plan. Initial shares are subject to a Shareholder Services Plan fee and Service shares are subject to a Distribution Plan fee, 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 ("ASC") 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. For open short positions, asked prices are 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.

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. These securities are generally categorized within Level 2 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, 2015 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†	261,194,605	–	–	**261,194,605**
Equity Securities– Foreign Common Stocks†	1,323,816	–	–	**1,323,816**
Mutual Funds	7,740,527	–	–	**7,740,527**

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

At June 30, 2015, 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 Dreyfus, 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, 2015, The Bank of New York Mellon earned $592 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, 2015 were as follows:

Affiliated Investment Company	Value 12/31/2014 ($)	Purchases ($)	Sales ($)	Value 6/30/2015 ($)	Net Assets (%)
Dreyfus Institutional Preferred Plus Money Market Fund	3,814,776	13,611,185	14,583,469	2,842,492	1.1
Dreyfus Institutional Cash Advantage Fund	1,507,543	16,215,797	12,825,305	4,898,035	1.8
Total	**5,322,319**	**29,826,982**	**27,408,774**	**7,740,527**	**2.9**

(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, 2015, 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, 2015, the fund did not incur any interest or penalties.

Each tax year in the three-year period ended December 31, 2014 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, 2014 was as follows: ordinary income $3,658,185 and long-term capital gains $18,367,048. The tax character of current year distributions will be determined at the end of the current fiscal year.

NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in a $430 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, 2015, the fund did not borrow under the Facilities.

NOTE 3—Management Fee and Other Transactions with Affiliates:

(a) Pursuant to management agreement with Dreyfus, 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, 2015, Service shares were charged $13,538 pursuant to the Distribution Plan.

(c) Under the Shareholder Services Plan, Initial shares reimburse the Distributor at an amount not to exceed an annual rate of .25% of the value of its average daily net assets for certain allocated expenses with respect to servicing and/or maintaining Initial shares' shareholder accounts.

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

The fund compensates Dreyfus Transfer, Inc., a wholly-owned subsidiary of Dreyfus, 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, 2015, the fund was charged $654 for transfer agency services and $53 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 $3.

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, 2015, the fund was charged $13,049 pursuant to the custody agreement.

During the period ended June 30, 2015, the fund was charged $6,240 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 $167,567, Distribution Plan fees $2,254, custodian fees $10,000, Chief Compliance Officer fees $3,169 and transfer agency fees $195.

(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, 2015, amounted to $81,026,592 and $94,886,563, respectively.

At June 30, 2015, accumulated net unrealized appreciation on investments was $51,439,235, consisting of $55,952,103 gross unrealized appreciation and $4,512,868 gross unrealized depreciation.

At June 30, 2015, 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.

0111SA0615

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, 12/31/14 to 6/30/15, excluding variable product issuer charges. If variable product issuer charges were included, returns would be lower.

Series I Shares	0.95%
Series II Shares	0.85
Russell 1000 Value Index▼ (Broad Market Index)	-0.61
Barclays U.S. Government/Credit Index▼ (Style-Specific Index)	-0.30
Lipper VUF Mixed-Asset Target Allocation Growth Index■ (Peer Group Index)*	1.86
Lipper VUF Equity Income Funds Index■ (Former Peer Group Index)*	-0.89

Source(s): ▼FactSet Research Systems Inc.; ■Lipper Inc.

* The Fund has elected to use the Lipper VUF Mixed-Asset Target Allocation Growth Index as its peer group index rather than the Lipper VUF Equity Income Funds Index because the Lipper VUF Mixed-Asset Target Allocation Growth 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 **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 **Lipper VUF Mixed-Asset Target Allocation Growth Index** is an unmanaged index considered representative of mixed-asset target allocation growth variable insurance underlying funds tracked by Lipper.

The **Lipper VUF Equity Income Funds Index** is an unmanaged index considered representative of equity income variable insurance underlying funds tracked by Lipper.

The Fund is not managed to track the performance of any particular index, including the index(es) described here, and consequently, the performance of the Fund may deviate significantly from the performance of the index(es).

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

Average Annual Total Returns

As of 6/30/15

Series I Shares	
Inception (12/30/94)	7.54%
10 Years	7.97
5 Years	13.44
1 Year	3.43
Series II Shares	
Inception (4/30/04)	9.85%
10 Years	7.70
5 Years	13.18
1 Year	3.19

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 1.10% and 1.35%, respectively.[1] 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 1.11% and 1.36%, 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.

Fund performance reflects any applicable fee waivers and/or expense reimbursements. Had the adviser not waived fees and/or reimbursed expenses currently or in the past, returns would have been lower. See current prospectus for more information.

1 Total annual Fund operating expenses after any contractual fee waivers and/or expense reimbursements by the adviser in effect through at least June 30, 2017. See current prospectus for more information.

Schedule of Investments[a]

June 30, 2015
(Unaudited)

	Shares	Value
Common Stocks & Other Equity Interests-64.41%		
Aerospace & Defense-0.96%		
General Dynamics Corp.	4,490	$ 636,188
Agricultural Products-0.75%		
Archer-Daniels-Midland Co.	10,372	500,138
Application Software-1.10%		
Adobe Systems Inc.[b]	4,609	373,375
Citrix Systems, Inc.[b]	5,140	360,622
		733,997
Asset Management & Custody Banks-1.77%		
Northern Trust Corp.	6,533	499,513
State Street Corp.	8,810	678,370
		1,177,883
Automobile Manufacturers-0.74%		
General Motors Co.	14,812	493,684
Biotechnology-0.50%		
Amgen Inc.	2,171	333,292
Broadcasting-0.17%		
CBS Corp.-Class B	2,059	114,274
Cable & Satellite-1.89%		
Comcast Corp.-Class A	12,556	755,118
Time Warner Cable Inc.	2,816	501,727
		1,256,845
Communications Equipment-1.03%		
Cisco Systems, Inc.	24,878	683,150
Construction Machinery & Heavy Trucks-0.50%		
Caterpillar Inc.	3,943	334,445
Diversified Banks-8.63%		
Bank of America Corp.	64,981	1,105,977
Citigroup Inc.	37,153	2,052,332
Comerica Inc.	9,359	480,304
JPMorgan Chase & Co.	31,023	2,102,118
		5,740,731
Diversified Chemicals-0.37%		
Dow Chemical Co. (The)	4,792	245,207
Electric Utilities-0.37%		
FirstEnergy Corp.	7,501	244,157
Electronic Components-0.60%		
Corning Inc.	20,159	397,737
Fertilizers & Agricultural Chemicals-0.37%		
Mosaic Co. (The)	5,278	247,274

	Shares	Value
General Merchandise Stores-1.30%		
Target Corp.	10,559	$ 861,931
Health Care Equipment-1.51%		
Baxter International Inc.	5,894	412,168
Medtronic PLC	7,943	588,576
		1,000,744
Health Care Services-0.56%		
Express Scripts Holding Co.[b]	4,152	369,279
Hotels, Resorts & Cruise Lines-1.15%		
Carnival Corp.	15,514	766,236
Household Products-0.73%		
Procter & Gamble Co. (The)	6,186	483,993
Hypermarkets & Super Centers-0.89%		
Wal-Mart Stores, Inc.	8,387	594,890
Industrial Conglomerates-2.05%		
General Electric Co.	51,305	1,363,174
Industrial Machinery-0.83%		
Ingersoll-Rand PLC	8,204	553,114
Insurance Brokers-2.05%		
Aon PLC	4,825	480,956
Marsh & McLennan Cos., Inc.	8,380	475,146
Willis Group Holdings PLC	8,715	408,733
		1,364,835
Integrated Oil & Gas-3.33%		
Exxon Mobil Corp.	4,789	398,445
Occidental Petroleum Corp.	4,880	379,518
Royal Dutch Shell PLC-Class A (United Kingdom)	33,066	929,653
TOTAL S.A. (France)	10,484	510,193
		2,217,809
Integrated Telecommunication Services-1.09%		
Koninklijke KPN N.V. (Netherlands)	31,738	121,824
Orange S.A. (France)	7,118	110,151
Telecom Italia S.p.A. (Italy)[b]	66,489	84,366
Telefónica, S.A. (Spain)	5,390	76,826
Verizon Communications Inc.	7,139	332,749
		725,916
Internet Software & Services-1.16%		
eBay Inc.[b]	12,794	770,711
Investment Banking & Brokerage-3.22%		
Charles Schwab Corp. (The)	15,691	512,311
Goldman Sachs Group, Inc. (The)	2,549	532,206
Morgan Stanley	28,337	1,099,192
		2,143,709

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Shares	Value
IT Consulting & Other Services-0.81%		
Amdocs Ltd.	9,818	$ 535,965
Managed Health Care-1.22%		
Anthem, Inc.	2,761	453,190
UnitedHealth Group Inc.	2,941	358,802
		811,992
Movies & Entertainment-0.87%		
Time Warner Inc.	3,357	293,435
Viacom Inc.-Class B	4,426	286,097
		579,532
Multi-Utilities-0.41%		
PG&E Corp.	5,581	274,027
Oil & Gas Drilling-0.31%		
Ensco PLC-Class A	9,225	205,441
Oil & Gas Equipment & Services-0.73%		
Baker Hughes Inc.	7,820	482,494
Oil & Gas Exploration & Production-1.78%		
Anadarko Petroleum Corp.	3,827	298,736
Apache Corp.	9,062	522,243
Canadian Natural Resources Ltd. (Canada)	13,481	365,956
		1,186,935
Other Diversified Financial Services-0.99%		
Voya Financial, Inc.	14,211	660,385
Packaged Foods & Meats-0.80%		
Mondelez International Inc.-Class A	12,921	531,570
Pharmaceuticals-5.23%		
Eli Lilly and Co.	6,753	563,808
Merck & Co., Inc.	13,398	762,748
Novartis AG (Switzerland)	6,853	676,927
Pfizer Inc.	13,812	463,116
Sanofi (France)	4,845	478,059
Teva Pharmaceutical Industries Ltd.-ADR (Israel)	9,039	534,205
		3,478,863
Publishing-0.50%		
Thomson Reuters Corp.	8,785	334,573
Railroads-0.69%		
CSX Corp.	13,988	456,708
Regional Banks-3.80%		
BB&T Corp.	9,893	398,787
Citizens Financial Group Inc.	20,329	555,185
Fifth Third Bancorp	21,262	442,675
First Horizon National Corp.	19,213	301,067
PNC Financial Services Group, Inc. (The)	8,674	829,668
		2,527,382
Security & Alarm Services-0.65%		
Tyco International PLC	11,270	433,557

	Shares	Value
Semiconductor Equipment-0.70%		
Applied Materials, Inc.	24,206	$ 465,239
Semiconductors-1.29%		
Broadcom Corp.-Class A	6,836	351,986
Intel Corp.	16,697	507,839
		859,825
Specialized Finance-0.43%		
CME Group Inc.-Class A	3,056	284,391
Systems Software-1.53%		
Microsoft Corp.	10,678	471,434
Symantec Corp.	23,442	545,026
		1,016,460
Technology Hardware, Storage & Peripherals-0.51%		
NetApp, Inc.	10,826	341,669
Tobacco-0.84%		
Philip Morris International Inc.	6,970	558,785
Wireless Telecommunication Services-0.70%		
Vodafone Group PLC-ADR (United Kingdom)	12,762	465,175
Total Common Stocks & Other Equity Interests (Cost $39,966,912)		42,846,311

	Principal Amount	Value
Bonds and Notes-21.69%		
Aerospace & Defense-0.29%		
Boeing Capital Corp., Sr. Unsec. Notes, 2.13%, 08/15/16	$ 35,000	35,539
L-3 Communications Corp., Sr. Unsec. Gtd. Global Notes, 3.95%, 05/28/24	150,000	145,845
Northrop Grumman Corp., Sr. Unsec. Global Notes, 3.85%, 04/15/45	10,000	8,833
		190,217
Agricultural Products-0.23%		
Bunge Ltd Finance Corp., Sr. Unsec. Gtd. Global Notes, 5.10%, 07/15/15	150,000	150,160
Air Freight & Logistics-0.27%		
UTi Worldwide Inc., Sr. Unsec. Conv. Bonds, 4.50%, 03/01/19	174,000	178,568
Airlines-0.11%		
American Airlines Pass Through Trust, Series 2014-1, Class A, Sr. Sec. First Lien Pass Through Ctfs., 3.70%, 10/01/26	24,267	24,252
United Airlines Pass Through Trust, Series 2014-2, Class A, Sr. Sec. First Lien Pass Through Ctfs., 3.75%, 09/03/26	30,000	29,831
Virgin Australia Pass Through Trust (Australia), Series 2013-1, Class A, Sec. Gtd. Pass Through Ctfs., 5.00%, 10/23/23[(c)]	16,452	17,049
		71,132

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Principal Amount	Value
Apparel Retail–0.03%		
Ross Stores, Inc., Sr. Unsec. Notes, 3.38%, 09/15/24	$ 19,000	$ 18,758
Application Software–0.43%		
Citrix Systems, Inc., Sr. Unsec. Conv. Bonds, 0.50%, 04/15/19	268,000	284,415
Asset Management & Custody Banks–0.41%		
Apollo Management Holdings L.P., Sr. Unsec. Gtd. Notes, 4.00%, 05/30/24[(c)]	40,000	40,130
Blackstone Holdings Finance Co. LLC, Sr. Unsec. Gtd. Notes, 5.00%, 06/15/44[(c)]	150,000	149,313
KKR Group Finance Co III LLC, Sr. Unsec. Gtd. Bonds, 5.13%, 06/01/44[(c)]	85,000	81,715
		271,158
Biotechnology–0.42%		
BioMarin Pharmaceutical Inc., Sr. Unsec. Sub. Conv. Notes, 1.50%, 10/15/20	115,000	183,712
Celgene Corp., Sr. Unsec. Global Notes, 4.63%, 05/15/44	100,000	95,473
		279,185
Broadcasting–0.75%		
Grupo Televisa S.A.B. (Mexico), Sr. Unsec. Global Notes, 5.00%, 05/13/45	200,000	191,013
Liberty Media Corp., Sr. Unsec. Conv. Bonds, 1.38%, 10/15/23	324,000	309,420
		500,433
Cable & Satellite–0.80%		
Comcast Corp., Sr. Unsec. Gtd. Global Notes, 5.70%, 05/15/18	150,000	167,105
Sr. Unsec. Gtd. Notes, 4.40%, 08/15/35	35,000	34,724
Cox Communications, Inc., Sr. Unsec. Notes, 8.38%, 03/01/39[(c)]	150,000	189,743
DIRECTV Holdings LLC/DIRECTV Financing Co., Inc., Sr. Unsec. Gtd. Global Notes, 5.15%, 03/15/42	150,000	141,884
		533,456
Catalog Retail–0.26%		
Liberty Interactive LLC, Sr. Unsec. Conv. Global Deb., 0.75%, 03/30/23[(d)]	81,000	129,347
QVC, Inc., Sr. Sec. Gtd. First Lien Global Notes, 5.45%, 08/15/34	50,000	45,415
		174,762
Communications Equipment–0.45%		
Ciena Corp., Sr. Unsec. Conv. Notes, 4.00%, 12/15/20[(c)]	81,000	114,261
JDS Uniphase Corp., Sr. Unsec. Conv. Deb., 0.63%, 08/15/18[(d)]	165,000	162,834
QUALCOMM Inc., Sr. Unsec. Global Notes, 3.00%, 05/20/22	24,000	23,855
		300,950

	Principal Amount	Value
Consumer Finance–0.38%		
American Express Co., Unsec. Sub. Global Notes, 3.63%, 12/05/24	$ 18,000	$ 17,623
American Express Credit Corp., Sr. Unsec. Medium-Term Notes, 2.75%, 09/15/15	140,000	140,559
Capital One Financial Corp., Sr. Unsec. Global Notes, 1.00%, 11/06/15	95,000	94,972
		253,154
Data Processing & Outsourced Services–0.05%		
Xerox Corp., Sr. Unsec. Global Notes, 4.80%, 03/01/35	38,000	35,961
Diversified Banks–1.92%		
Abbey National Treasury Services PLC (United Kingdom), Sr. Unsec. Gtd. Global Notes, 4.00%, 04/27/16	115,000	117,700
Banco Inbursa S.A. Institucion de Banca Multiple (Mexico), Sr. Unsec. Notes, 4.13%, 06/06/24[(c)]	150,000	144,959
BNP Paribas S.A. (France), Unsec. Sub. Notes, 4.25%, 10/15/24	200,000	198,054
Citigroup Inc., Unsec. Sub. Notes, 4.00%, 08/05/24	60,000	59,198
HSBC Finance Corp., Sr. Unsec. Global Notes, 5.50%, 01/19/16	100,000	102,403
JPMorgan Chase & Co., Series V, Jr. Unsec. Sub. Global Notes, 5.00%[(e)]	150,000	147,188
Series X, Jr. Unsec. Sub. Global Notes, 6.10%[(e)]	60,000	60,375
Series Z, Jr. Unsec. Sub. Global Notes, 5.30%[(e)]	40,000	39,900
Santander Holdings USA Inc., Sr. Unsec. Global Notes, 3.00%, 09/24/15	150,000	150,421
Wells Fargo & Co., Sr. Unsec. Notes, 3.90%, 05/01/45	75,000	67,535
Unsec. Sub. Medium-Term Notes, 4.10%, 06/03/26	95,000	94,930
4.65%, 11/04/44	100,000	96,125
		1,278,788
Diversified Chemicals–0.06%		
Eastman Chemical Co., Sr. Unsec. Global Notes, 2.70%, 01/15/20	43,000	42,873
Diversified Real Estate Activities–0.06%		
Brookfield Asset Management Inc. (Canada), Sr. Unsec. Yankee Notes, 4.00%, 01/15/25	40,000	39,538
Drug Retail–0.11%		
CVS Health Corp., Sr. Unsec. Global Bonds, 3.38%, 08/12/24	20,000	19,656
Walgreens Boots Alliance Inc., Sr. Unsec. Gtd. Global Notes, 3.30%, 11/18/21	32,000	31,811
4.50%, 11/18/34	24,000	22,606
		74,073

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Principal Amount	Value
Electric Utilities–0.26%		
Georgia Power Co., Sr. Unsec. Notes, 3.00%, 04/15/16	$ 45,000	$ 45,778
NextEra Energy Capital Holdings Inc., Sr. Unsec. Gtd. Deb., 2.60%, 09/01/15	70,000	70,245
Southern Co. (The), Series A, Sr. Unsec. Notes, 2.38%, 09/15/15	55,000	55,195
		171,218
Environmental & Facilities Services–0.03%		
Waste Management, Inc., Sr. Unsec. Gtd. Global Notes, 3.90%, 03/01/35	25,000	23,148
Fertilizers & Agricultural Chemicals–0.04%		
Monsanto Co., Sr. Unsec. Global Notes, 2.13%, 07/15/19	15,000	14,932
3.38%, 07/15/24	10,000	9,590
		24,522
Food Retail–0.08%		
Kraft Heinz Co. (The), Sr. Unsec. Gtd. Notes, 1.60%, 06/30/17[c]	56,000	56,051
General Merchandise Stores–0.19%		
Dollar General Corp., Sr. Unsec. Global Notes, 3.25%, 04/15/23	20,000	19,059
Target Corp., Sr. Unsec. Notes, 5.88%, 07/15/16	100,000	105,198
		124,257
Health Care Distributors–0.07%		
AmerisourceBergen Corp., Sr. Unsec. Bonds, 3.40%, 05/15/24	50,000	49,703
Health Care Equipment–0.99%		
Becton, Dickinson and Co., Sr. Unsec. Global Bonds, 4.88%, 05/15/44	170,000	169,597
Sr. Unsec. Global Notes, 3.88%, 05/15/24	165,000	165,818
Sr. Unsec. Notes, 2.68%, 12/15/19	17,000	17,018
Medtronic Inc., Sr. Unsec. Gtd. Notes, 3.15%, 03/15/22[c]	58,000	58,179
4.38%, 03/15/35[c]	21,000	20,821
NuVasive Inc., Sr. Unsec. Conv. Notes, 2.75%, 07/01/17	94,000	119,850
Wright Medical Group, Inc., Sr. Unsec. Conv. Notes, 2.00%, 02/15/20[c]	101,000	107,691
		658,974
Health Care Facilities–0.79%		
Brookdale Senior Living Inc., Sr. Unsec. Conv. Notes, 2.75%, 06/15/18	174,000	227,614
HealthSouth Corp., Sr. Unsec. Sub. Conv. Notes, 2.00%, 12/01/20[d]	235,000	300,065
		527,679

	Principal Amount	Value
Health Care REIT's–0.04%		
HCP, Inc., Sr. Unsec. Global Notes, 3.88%, 08/15/24	$ 25,000	$ 24,486
Health Care Services–0.34%		
Express Scripts Holding Co., Sr. Unsec. Gtd. Global Notes, 2.25%, 06/15/19	50,000	49,713
Sr. Unsec. Gtd. Notes, 3.13%, 05/15/16	120,000	122,024
Laboratory Corp. of America Holdings, Sr. Unsec. Notes, 3.20%, 02/01/22	33,000	32,560
4.70%, 02/01/45	22,000	20,161
		224,458
Industrial Conglomerates–0.14%		
General Electric Co., Sr. Unsec. Global Notes, 0.85%, 10/09/15	90,000	90,137
Industrial Machinery–0.03%		
Valmont Industries, Inc., Sr. Unsec. Gtd. Global Notes, 5.25%, 10/01/54	22,000	19,700
Integrated Oil & Gas–0.14%		
Chevron Corp., Sr. Unsec. Global Notes, 1.37%, 03/02/18	77,000	76,876
Suncor Energy Inc. (Canada), Sr. Unsec. Yankee Notes, 3.60%, 12/01/24	18,000	18,017
		94,893
Integrated Telecommunication Services–0.56%		
AT&T Inc., Sr. Unsec. Global Notes, 3.00%, 06/30/22	28,000	27,056
3.40%, 05/15/25	29,000	27,642
4.50%, 05/15/35	25,000	22,992
Telefonica Emisiones SAU (Spain), Sr. Unsec. Gtd. Global Notes, 7.05%, 06/20/36	150,000	185,463
Verizon Communications Inc., Sr. Unsec. Global Notes, 4.40%, 11/01/34	120,000	112,126
		375,279
Internet Retail–0.18%		
Amazon.com, Inc., Sr. Unsec. Global Notes, 0.65%, 11/27/15	110,000	110,041
4.80%, 12/05/34	9,000	8,882
		118,923
Investment Banking & Brokerage–0.60%		
Jefferies Group LLC, Sr. Unsec. Conv. Deb., 3.88%, 11/01/17[d]	163,000	166,973
Lazard Group LLC, Sr. Unsec. Global Notes, 3.75%, 02/13/25	62,000	59,018
Morgan Stanley, Sr. Unsec. Global Medium-Term Notes, 2.38%, 07/23/19	175,000	173,942
		399,933
Life & Health Insurance–0.07%		
Aegon N.V. (Netherlands), Sr. Unsec. Global Bonds, 4.63%, 12/01/15	45,000	45,625

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Principal Amount	Value
Managed Health Care-0.19%		
Anthem, Inc., Sr. Unsec. Global Notes, 1.25%, 09/10/15	$ 125,000	$ 125,158
Movies & Entertainment-0.13%		
Live Nation Entertainment, Inc., Sr. Unsec. Conv. Bonds, 2.50%, 05/15/19	61,000	65,994
Viacom Inc., Sr. Unsec. Global Deb., 4.85%, 12/15/34	19,000	17,600
		83,594
Multi-Line Insurance-0.54%		
American Financial Group, Inc., Sr. Unsec. Notes, 9.88%, 06/15/19	150,000	187,633
American International Group, Inc., Sr. Unsec. Global Notes, 2.30%, 07/16/19	20,000	20,024
4.38%, 01/15/55	40,000	35,899
Farmers Exchange Capital III, Unsec. Sub. Notes, 5.45%, 10/15/54[(c)]	70,000	68,395
Nationwide Financial Services Inc., Sr. Unsec. Notes, 5.30%, 11/18/44[(c)]	50,000	49,120
		361,071
Multi-Utilities-0.29%		
Enable Midstream Partners L.P., Sr. Unsec. Gtd. Notes, 2.40%, 05/15/19[(c)]	200,000	192,907
Office REIT's-0.22%		
Highwoods Realty L.P., Sr. Unsec. Notes, 3.20%, 06/15/21	150,000	149,167
Oil & Gas Equipment & Services-0.12%		
Helix Energy Solutions Group, Inc., Sr. Unsec. Conv. Notes, 3.25%, 03/15/18[(d)]	84,000	79,905
Oil & Gas Exploration & Production-0.74%		
Cobalt International Energy Inc., Sr. Unsec. Conv. Notes, 2.63%, 12/01/19	129,000	95,379
ConocoPhillips Co., Sr. Unsec. Gtd. Global Notes, 2.88%, 11/15/21	46,000	46,375
4.15%, 11/15/34	49,000	47,724
Devon Energy Corp., Sr. Unsec. Global Notes, 2.25%, 12/15/18	25,000	25,081
3.25%, 05/15/22	6,000	5,931
Marathon Oil Corp., Sr. Unsec. Notes, 0.90%, 11/01/15	110,000	109,979
Stone Energy Corp., Sr. Unsec. Gtd. Conv. Notes, 1.75%, 03/01/17	174,000	159,754
		490,223
Oil & Gas Storage & Transportation-0.47%		
Energy Transfer Partners, L.P., Sr. Unsec. Notes, 4.90%, 03/15/35	19,000	17,151

	Principal Amount	Value
Oil & Gas Storage & Transportation-(continued)		
Enterprise Products Operating LLC, Sr. Unsec. Gtd. Notes, 3.20%, 02/01/16	$ 150,000	$ 151,891
2.55%, 10/15/19	20,000	20,008
Kinder Morgan Inc., Sr. Unsec. Gtd. Notes, 5.30%, 12/01/34	28,000	25,890
Spectra Energy Partners, LP, Sr. Unsec. Notes, 2.95%, 06/15/16	55,000	55,769
Williams Partners L.P., Sr. Unsec. Global Notes, 5.10%, 09/15/45	48,000	42,611
		313,320
Other Diversified Financial Services-0.07%		
ERAC USA Finance LLC, Sr. Unsec. Gtd. Notes, 2.35%, 10/15/19[(c)]	50,000	49,641
Packaged Foods & Meats-0.56%		
General Mills, Inc., Sr. Unsec. Global Notes, 0.88%, 01/29/16	45,000	45,049
2.20%,10/21/19	45,000	44,726
Grupo Bimbo S.A.B. de C.V. (Mexico), Sr. Unsec. Gtd. Notes, 3.88%, 06/27/24[(c)]	200,000	197,644
Mondelez International, Inc., Sr. Unsec. Global Notes, 4.13%, 02/09/16	60,000	61,127
Tyson Foods, Inc., Sr. Unsec. Gtd. Global Bonds, 4.88%, 08/15/34	11,000	11,116
5.15%, 08/15/44	12,000	12,405
		372,067
Pharmaceuticals-1.50%		
AbbVie Inc., Sr. Unsec. Global Notes, 1.20%, 11/06/15	125,000	125,161
4.50%, 05/14/35	38,000	37,312
Actavis Funding SCS, Sr. Unsec. Gtd. Global Notes, 1.85%, 03/01/17	49,000	49,300
4.55%, 03/15/35	14,000	13,426
4.85%, 06/15/44	150,000	144,773
Allergan, Inc., Sr. Unsec. Gtd. Global Notes, 5.75%, 04/01/16	50,000	51,804
Bayer US Finance LLC (Germany), Sr. Unsec. Gtd. Notes, 3.00%, 10/08/21[(c)]	200,000	201,305
Jazz Investments I Ltd., Sr. Unsec. Gtd. Conv. Notes, 1.88%, 08/15/21[(c)]	76,000	88,777
Merck & Co., Inc., Sr. Unsec. Global Notes, 0.70%, 05/18/16	100,000	100,018
Sanofi (France), Sr. Unsec. Global Notes, 2.63%, 03/29/16	85,000	86,335
Zoetis Inc., Sr. Unsec. Global Notes, 1.15%, 02/01/16	100,000	100,032
		998,243
Property & Casualty Insurance-0.25%		
Liberty Mutual Group Inc., Sr. Unsec. Gtd. Bonds, 4.85%, 08/01/44[(c)]	100,000	97,788
Old Republic International Corp., Sr. Unsec. Conv. Notes, 3.75%, 03/15/18	57,000	67,581
		165,369

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Principal Amount	Value
Railroads-0.04%		
Union Pacific Corp., Sr. Unsec. Notes, 4.15%, 01/15/45	$ 25,000	$ 23,932
Regional Banks-0.27%		
BB&T Corp., Series A, Sr. Unsec. Medium-Term Notes, 3.20%, 03/15/16	40,000	40,590
Fifth Third Bancorp, Sr. Unsec. Notes, 3.63%, 01/25/16	140,000	141,924
		182,514
Renewable Electricity-0.22%		
Oglethorpe Power Corp., Sr. Sec. First Mortgage Bonds, 4.55%, 06/01/44	150,000	147,857
Research & Consulting Services-0.04%		
Verisk Analytics, Inc., Sr. Unsec. Global Notes, 5.50%, 06/15/45	25,000	24,635
Retail REIT's-0.23%		
Realty Income Corp., Sr. Unsec. Notes, 2.00%, 01/31/18	150,000	150,998
Semiconductor Equipment-0.48%		
Lam Research Corp., Sr. Unsec. Global Notes, 3.80%, 03/15/25	35,000	34,116
Series B, Sr. Unsec. Conv. Notes, 1.25%, 05/15/18	198,000	281,779
		315,895
Semiconductors-1.07%		
Microchip Technology Inc., Sr. Unsec. Sub. Conv. Notes, 1.63%, 02/15/25(c)	94,000	95,292
Micron Technology, Inc., Series G, Sr. Unsec. Conv. Global Bonds, 3.00%, 11/15/28(d)	219,000	198,879
NVIDIA Corp., Sr. Unsec. Conv. Bonds, 1.00%, 12/01/18	297,000	341,736
ON Semiconductor Corp., Sr. Unsec. Gtd. Conv. Notes, 1.00%, 12/01/20(c)	76,000	75,573
		711,480
Soft Drinks-0.24%		
Coca-Cola Co. (The), Sr. Unsec. Global Notes, 1.80%, 09/01/16	30,000	30,375
PepsiCo, Inc., Sr. Unsec. Notes, 2.50%, 05/10/16	130,000	132,062
		162,437
Specialized Finance-0.24%		
Moody's Corp., Sr. Unsec. Global Notes, 4.88%, 02/15/24	150,000	161,419
Systems Software-0.42%		
FireEye, Inc., Series A, Sr. Unsec. Conv. Notes, 1.00%, 06/01/20(c)(d)	22,000	23,595
Series B, Sr. Unsec. Conv. Notes, 1.63%, 06/01/22(c)(d)	19,000	20,354
Microsoft Corp., Sr. Unsec. Global Notes, 3.50%, 02/12/35	37,000	33,841
Systems Software-(continued)		
NetSuite Inc., Sr. Unsec. Conv. Notes, 0.25%, 06/01/18	$ 162,000	$ 169,492
Oracle Corp., Sr. Unsec. Global Notes, 4.30%, 07/08/34	30,000	29,445
		276,727
Technology Hardware, Storage & Peripherals-0.72%		
Apple Inc., Sr. Unsec. Global Notes, 2.15%, 02/09/22	39,000	37,238
SanDisk Corp., Sr. Unsec. Conv. Bonds, 0.50%, 10/15/20	348,000	339,082
Seagate HDD Cayman, Sr. Unsec. Gtd. Bonds, 4.75%, 01/01/25(c)	65,000	64,919
Sr. Unsec. Gtd. Notes, 5.75%, 12/01/34(c)	37,000	36,353
		477,592
Thrifts & Mortgage Finance-0.67%		
MGIC Investment Corp., Sr. Unsec. Conv. Notes, 5.00%, 05/01/17	170,000	196,032
2.00%, 04/01/20	46,000	76,820
Radian Group Inc., Sr. Unsec. Conv. Notes, 3.00%, 11/15/17	72,000	119,970
2.25%, 03/01/19	30,000	53,381
		446,203
Tobacco-0.09%		
Altria Group, Inc., Sr. Unsec. Gtd. Global Notes, 4.13%, 09/11/15	25,000	25,151
B.A.T. International Finance PLC (United Kingdom), Sr. Unsec. Gtd. Bonds, 3.95%, 06/15/25(c)	37,000	37,005
		62,156
Trading Companies & Distributors-0.05%		
Air Lease Corp., Sr. Unsec. Global Notes, 4.25%, 09/15/24	35,000	34,956
Wireless Telecommunication Services-0.25%		
Crown Castle Towers LLC, Sr. Sec. Gtd. First Lien Notes, 4.88%, 08/15/20(c)	150,000	163,996
Total Bonds and Notes (Cost $14,594,075)		14,430,029
U.S. Treasury Securities-8.70%		
U.S. Treasury Notes-8.65%		
0.63%, 06/30/17	3,000,000	2,998,817
1.63%, 06/30/20	2,244,300	2,242,464
2.13%, 05/15/25	523,800	513,437
		5,754,718
U.S. Treasury Bonds-0.05%		
2.50%, 02/15/45	34,800	30,501
Total U.S. Treasury Securities (Cost $5,786,604)		5,785,219

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Shares	Value
Preferred Stocks-0.17%		
Asset Management & Custody Banks-0.17%		
AMG Capital Trust II, $2.58 Jr. Unsec. Gtd. Sub. Conv. Pfd. (Cost $118,794)	1,900	$ 114,831
Money Market Funds-5.23%		
Liquid Assets Portfolio-Institutional Class[f]	1,738,945	1,738,945
Premier Portfolio-Institutional Class[f]	1,738,946	1,738,946
Total Money Market Funds (Cost $3,477,891)		3,477,891
TOTAL INVESTMENTS-100.20% (Cost $63,944,276)		66,654,281
OTHER ASSETS LESS LIABILITIES-(0.20)%		(134,781)
NET ASSETS-100.00%		$66,519,500

Investment Abbreviations:

ADR - American Depositary Receipt
Conv. - Convertible
Ctfs. - Certificates
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, 2015 was $2,442,576, which represented 3.67% 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, 2015

Financials	27.1%
Health Care	13.3
Information Technology	12.3
Consumer Discretionary	9.0
U.S. Treasury Securities	8.7
Energy	7.6
Industrials	6.7
Consumer Staples	5.3
Telecommunication Services	2.6
Utilities	1.6
Materials	0.8
Money Market Funds Plus Other Assets Less Liabilities	5.0

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

Statement of Assets and Liabilities

June 30, 2015
(Unaudited)

Assets:	
Investments, at value (Cost $60,466,385)	$63,176,390
Investments in affiliated money market funds, at value and cost	3,477,891
Total investments, at value (Cost $63,944,276)	66,654,281
Foreign currencies, at value (Cost $22,618)	22,382
Receivable for:	
Investments sold	38,156
Fund shares sold	5,810
Dividends and interest	206,503
Investment for trustee deferred compensation and retirement plans	70,512
Unrealized appreciation on forward foreign currency contracts outstanding	6,122
Other assets	2,564
Total assets	67,006,330
Liabilities:	
Payable for:	
Investments purchased	225,115
Fund shares reacquired	101,417
Accrued fees to affiliates	47,904
Accrued trustees' and officers' fees and benefits	4,411
Accrued other operating expenses	33,342
Trustee deferred compensation and retirement plans	74,641
Total liabilities	486,830
Net assets applicable to shares outstanding	$66,519,500
Net assets consist of:	
Shares of beneficial interest	$39,250,493
Undistributed net investment income	1,106,582
Undistributed net realized gain	23,450,018
Net unrealized appreciation	2,712,407
	$66,519,500
Net Assets:	
Series I	$64,883,710
Series II	$ 1,635,790
Shares outstanding, $0.001 par value per share, with an unlimited number of shares authorized:	
Series I	3,378,818
Series II	85,908
Series I:	
Net asset value per share	$ 19.20
Series II:	
Net asset value per share	$ 19.04

Statement of Operations

For the six months ended June 30, 2015
(Unaudited)

Investment income:	
Dividends (net of foreign withholding taxes of $17,522)	$ 532,103
Dividends from affiliated money market funds	1,257
Interest	219,164
Total investment income	752,524
Expenses:	
Advisory fees	208,222
Administrative services fees	105,711
Custodian fees	7,901
Distribution fees — Series II	2,134
Transfer agent fees	10,374
Trustees' and officers' fees and benefits	11,110
Professional services fees	20,806
Other	7,099
Total expenses	373,357
Less: Fees waived	(10,347)
Net expenses	363,010
Net investment income	389,514
Realized and unrealized gain (loss) from:	
Net realized gain (loss) from:	
Investment securities	996,427
Foreign currencies	(86)
Forward foreign currency contracts	170,954
Futures contracts	(167,333)
	999,962
Change in net unrealized appreciation (depreciation) of:	
Investment securities	(618,976)
Foreign currencies	(765)
Forward foreign currency contracts	(75,127)
	(694,868)
Net realized and unrealized gain	305,094
Net increase in net assets resulting from operations	$ 694,608

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, 2015 and the year ended December 31, 2014
(Unaudited)

	June 30, 2015	December 31, 2014
Operations:		
Net investment income	$ 389,514	$ 882,573
Net realized gain	999,962	22,977,439
Change in net unrealized appreciation (depreciation)	(694,868)	(11,008,043)
Net increase in net assets resulting from operations	694,608	12,851,969
Distributions to shareholders from net investment income:		
Series I	–	(1,956,705)
Series II	–	(44,780)
Total distributions from net investment income	–	(2,001,485)
Distributions to shareholders from net realized gains:		
Series I	–	(3,200,299)
Series II	–	(80,119)
Total distributions from net realized gains	–	(3,280,418)
Share transactions–net:		
Series I	(6,512,949)	1,534,064
Series II	(172,960)	(63,252)
Net increase (decrease) in net assets resulting from share transactions	(6,685,909)	1,470,812
Net increase (decrease) in net assets	(5,991,301)	9,040,878
Net assets:		
Beginning of period	72,510,801	63,469,923
End of period (includes undistributed net investment income of $1,106,582 and $717,068, respectively)	$66,519,500	$ 72,510,801

Notes to Financial Statements

June 30, 2015
(Unaudited)

NOTE 1—Significant Accounting Policies

Invesco V.I. Managed Volatility Fund (the "Fund") is a series portfolio of AIM Variable Insurance Funds (Invesco Variable Insurance Funds) (the "Trust"). The Trust is a Delaware statutory trust registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end series management investment company consisting of twenty-four separate portfolios, (each constituting a "Fund"). The assets, liabilities and operations of each portfolio are accounted for separately. Information presented in these financial statements pertains only to the Fund. Matters affecting each Fund or class will be voted on exclusively by the shareholders of such Fund or class. Current Securities and Exchange Commission ("SEC") guidance, however, requires participating insurance companies offering separate accounts to vote shares proportionally in accordance with the instructions of the contract owners whose investments are funded by shares of each Fund or class.

The Fund's investment objective is 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 asked 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 asked 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/asked 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 Fund 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 net investment 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. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests and are shown in the Statement of Operations.

J. Forward Foreign Currency Contracts – The Fund may engage in foreign currency transactions either on a spot (i.e. for prompt delivery and settlement) basis, or through 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, or the Fund may also enter into forward foreign currency contracts that do not provide for physical settlement of the two currencies, but instead are settled by a single cash payment calculated as the difference between the agreed upon exchange rate and the spot rate at settlement based upon an agreed upon notional amount (non-deliverable forwards). The Fund will set aside liquid assets in an amount equal to daily mark-to-market obligation for forward foreign currency contracts.

A forward foreign currency contract is an obligation between two parties ("Counterparties") 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. Futures Contracts – The Fund may enter into futures contracts to manage exposure to interest rate, equity and market price movements and/or currency risks. A futures contract is an agreement between two parties ("Counterparties") to purchase or sell a specified underlying security, currency or commodity (or delivery of a cash settlement price, in the case of an index future) for a fixed price at a future date. The Fund currently invests only in exchange-traded futures and they are standardized as to maturity date and underlying financial instrument. Initial margin deposits required upon entering into futures contracts are satisfied by the segregation of specific securities or cash as collateral at the futures commission merchant (broker). During the period the futures contracts are open, changes in the value of the contracts are recognized as unrealized gains or losses by recalculating the value of the contracts on a daily basis. Subsequent or variation margin payments are received or made depending upon whether unrealized gains or losses are incurred. These amounts are reflected as receivables or payables on the Statement of Assets and Liabilities. When the contracts are closed or expire, the Fund recognizes a realized gain or loss equal to the difference between the proceeds from, or cost of, the closing transaction and the Fund's basis in the contract. The net realized gain (loss) and the change in unrealized gain (loss) on futures contracts held during the period is included on the Statement of Operations. The primary risks associated with futures contracts are market risk and the absence of a liquid secondary market. If the Fund were unable to liquidate a futures contract and/or enter into an offsetting closing transaction, the Fund would continue to be subject to market risk with respect to the value of the contracts and continue to be required to maintain the margin deposits on the futures contracts. Futures contracts have minimal Counterparty risk since the exchange's clearinghouse, as Counterparty to all exchange-traded futures, guarantees the futures against default. Risks may exceed amounts recognized in the Statement of Assets and Liabilities.

L. 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 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 Affiliated Sub-Adviser(s).

Effective May 1, 2015, the Adviser has contractually agreed, through at least June 30, 2016, 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. Prior to May 1, 2015, 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 1.03% and Series II shares to 1.28% 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 June 30, 2016. 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, 2017, 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, 2015, the Adviser waived advisory fees of $10,347.

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, 2015, Invesco was paid $24,795 for accounting and fund administrative services and reimbursed $80,916 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, 2015, 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, 2015, expenses incurred under the Plan are detailed in the Statement of Operations as *Distribution fees*.

For the six months ended June 30, 2015, the Fund incurred $88 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, 2015. 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	$43,420,569	$ 3,018,464	$–	$46,439,033
U.S. Treasury Securities	–	5,785,219	–	5,785,219
Corporate Debt Securities	–	14,430,029	–	14,430,029
	43,420,569	23,233,712	–	66,654,281
Forward Foreign Currency Contracts*	–	6,122	–	6,122
Total Investments	$43,420,569	$23,239,834	$–	$66,660,403

* Unrealized appreciation.

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, 2015:

	Value	
Risk Exposure/Derivative Type	**Assets**	**Liabilities**
Currency risk:		
Forward foreign currency contracts[(a)]	$17,483	$(11,361)

(a) Values are disclosed on the Statement of Assets and Liabilities under the caption *Unrealized appreciation on forward foreign currency contracts outstanding*.

Effect of Derivative Investments for the six months ended June 30, 2015

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	**Futures Contracts**
Realized Gain (Loss):		
Currency risk	$170,954	$ –
Market risk	–	(167,333)
Change in Net Unrealized Appreciation (Depreciation):		
Currency risk	(75,127)	–
Total	$ 95,827	$(167,333)

The table below summarizes the six month average notional value of forward foreign currency contracts and the two month average notional value of futures contracts outstanding during the period.

	Forward Foreign Currency Contracts	Futures Contracts
Average notional value	$4,097,035	$4,714,370

Open Forward Foreign Currency Contracts

Settlement Date	Counterparty	Contract to Deliver	Contract to Receive	Notional Value	Unrealized Appreciation (Depreciation)
7/24/15	Bank of New York Mellon (The)	CAD 333,810	USD 270,895	$267,205	$ 3,690
7/24/15	State Street Bank and Trust Co.	CAD 334,437	USD 271,350	267,706	3,644
7/24/15	Bank of New York Mellon (The)	CHF 239,075	USD 256,766	255,955	811
7/24/15	State Street Bank and Trust Co.	CHF 239,846	USD 257,596	256,781	815
7/24/15	Bank of New York Mellon (The)	EUR 460,138	USD 517,462	513,205	4,257
7/24/15	State Street Bank and Trust Co.	EUR 460,842	USD 518,256	513,990	4,266
7/24/15	Bank of New York Mellon (The)	GBP 339,321	USD 530,818	533,097	(2,279)
7/24/15	State Street Bank and Trust Co.	GBP 339,783	USD 531,558	533,823	(2,265)
7/24/15	Bank of New York Mellon (The)	ILS 729,985	USD 190,026	193,397	(3,371)
7/24/15	State Street Bank and Trust Co.	ILS 729,986	USD 189,951	193,397	(3,446)
Total Open Forward Foreign Currency Contracts — Currency Risk					$ 6,122

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 the Fund's 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, 2015.

Assets:

Counterparty	Gross amounts of Recognized Assets	Gross amounts offset in Statement of Assets & Liabilities	Net amounts of assets presented in Statement of Assets & Liabilities	Collateral Received Financial Instruments	Collateral Received Cash	Net Amount
Bank of New York Mellon (The)	$ 8,758	$ (5,650)	$3,108	$–	$–	$3,108
State Street Bank and Trust Co.	8,725	(5,711)	3,014	–	–	3,014
Total	$17,483	$(11,361)	$6,122	$–	$–	$6,122

Liabilities:

Counterparty	Gross amounts of Recognized Liabilities	Gross amounts offset in Statement of Assets & Liabilities	Net amounts of liabilities presented in Statement of Assets & Liabilities	Collateral Pledged Financial Instruments	Collateral Pledged Cash	Net Amount
Bank of New York Mellon (The)	$ 5,650	$ (5,650)	$ –	$–	$–	$ –
State Street Bank and Trust Co.	5,711	(5,711)	–	–	–	–
Total	$11,361	$(11,361)	$ –	$–	$–	$ –

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 eight 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 carryforwards 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, 2014.

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, 2015 was $7,971,214 and $13,159,664, respectively. During the same period, purchases and sales of U.S. Treasury obligations were $32,732,100 and $32,413,293, 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	$ 5,012,465
Aggregate unrealized (depreciation) of investment securities	(2,377,225)
Net unrealized appreciation of investment securities	$ 2,635,240

Cost of investments for tax purposes is $64,019,041.

NOTE 9—Share Information

	Summary of Share Activity			
	Six months ended June 30, 2015[a]		Year ended December 31, 2014	
	Shares	Amount	Shares	Amount
Sold:				
Series I	186,625	$ 3,545,306	717,540	$ 13,584,291
Series II	2,614	49,560	16,173	299,184
Issued as reinvestment of dividends:				
Series I	–	–	276,664	5,157,004
Series II	–	–	6,744	124,899
Reacquired:				
Series I	(525,506)	(10,058,255)	(906,605)	(17,207,231)
Series II	(11,704)	(222,520)	(26,293)	(487,335)
Net increase (decrease) in share activity	(347,971)	$ (6,685,909)	84,223	$ 1,470,812

[a] There are entities that are record owners of more than 5% of the outstanding shares of the Fund and in the aggregate own 57% 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 06/30/15	$19.02	$0.11	$0.07	$0.18	$ –	$ –	$ –	$19.20	0.95%	$64,884	1.04%[d]	1.07%[d]	1.13%[d]	62%
Year ended 12/31/14	17.03	0.24	3.23	3.47	(0.56)	(0.92)	(1.48)	19.02	20.57	70,717	1.03	1.10	1.26	201
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
Series II														
Six months ended 06/30/15	18.88	0.08	0.08	0.16	–	–	–	19.04	0.85	1,636	1.29[d]	1.32[d]	0.88[d]	62
Year ended 12/31/14	16.91	0.19	3.21	3.40	(0.51)	(0.92)	(1.43)	18.88	20.30	1,794	1.28	1.35	1.01	201
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

[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 $68,261 and $1,721 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, 2015 through June 30, 2015.

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 (01/01/15)	Ending Account Value (06/30/15)[1]	Expenses Paid During Period[2,3]	Ending Account Value (06/30/15)	Expenses Paid During Period[2,4]	Annualized Expense Ratio[2]
Series I	$1,000.00	$1,009.50	$5.18	$1,019.64	$5.21	1.04%
Series II	1,000.00	1,008.50	6.42	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, 2015 through June 30, 2015, 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 May 1, 2015, the Fund's adviser has contractually agreed to waive advisory fees and/or reimburse expenses to the extent necessary to limit total annual fund operating expense of Series I and Series II shares to 2.00% and 2.25% of average daily net assets, respectively. The annualized expense ratios restated as if these agreements had been in effect throughout the entire most recent fiscal half year are 1.06% and 1.31% 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 $5.28 and $6.52 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 $5.31 and $6.56 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 9-10, 2015, 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 investment advisory agreement) 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 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, 2015.

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 performance and investment management services provided by Invesco Advisers and the Affiliated Sub-Advisers to 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 Board had the benefit of reports form the Sub-Committees and Investments Committee throughout the year in considering approval of the continuance of each Invesco Fund's investment advisory agreement and sub-advisory contracts for another year.

During the contract renewal process, the Board receives 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 Board also receives a report and this 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 is a summary of 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 10, 2015, and does 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. 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, valuation 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 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 Variable Underlying Funds Mixed-Asset Target Allocation Growth Index. The Board noted that performance of Series I shares of the Fund was in the first quintile of the Lipper performance universe for the one year period, the fifth quintile for the three year period and the second quintile for the five year period (the first quintile being the best performing funds and the fifth quintile being the worst performing funds). The Board noted that performance of Series I shares of the Fund was above the performance of the Index for the one and five year periods and below the performance of the Index for the three year period. 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 its 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 and the Affiliated Sub-Advisers do not manage other funds or client accounts with investment strategies comparable to those of the Fund.

The Board also considered the services that may be provided by the Affiliated Sub-Advisers pursuant to the sub-advisory contracts, as well as the fees payable by Invesco Advisers to the Affiliated Sub-Advisers pursuant to the sub-advisory contracts. The Board also noted that the sub-advisory fees are not paid directly by the Fund, but rather, are payable by Invesco 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 Invesco Funds and the profitability of Invesco Advisers and its affiliates in providing these services . The Board received information from Invesco Advisers about the methodology used to prepare the profitability information. The Board noted that Invesco Advisers continues to operate at a net profit from services Invesco Advisers and its affiliates 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. 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 providing 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; and that the services are required for the operation of the Fund.

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 cash collateral from any securities lending arrangements in the affiliated money market funds is 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, and consistent with best execution obligations.

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

SEMIANNUAL REPORT
June 30, 2015

Janus Aspen Forty Portfolio

Janus Aspen Series

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 and peers over time. We define quality as companies that enjoy sustainable "moats" around their businesses, potentially allowing companies to grow faster, with higher returns, than their competitors. We believe the market often underestimates these companies' sustainable competitive advantage periods.


Doug Rao
portfolio manager

PERFORMANCE OVERVIEW

For the six-month period ended June 30, 2015, the Portfolio's Institutional Shares and Service Shares returned 8.06% and 7.92%, respectively, versus a return of 3.96% for the Portfolio's primary benchmark, the Russell 1000 Growth Index. The Portfolio's secondary benchmark, the S&P 500 Index, returned 1.23% for the period.

INVESTMENT ENVIRONMENT

Large-cap U.S. equities notched gains during the first months of the year. While speculation about how, or when, the Federal Reserve (Fed) would raise interest rates caused volatility during the period, stocks popped in mid-March after the Fed indicated it would be cautious and gradual in its attempt to raise interest rates. Stocks were further driven by strong merger and acquisition activity and favorable economic data.

For much of the second quarter, volatility was low and stocks generally traded in a narrow range, as the market began to digest what the eventual end of the Federal Reserve's accommodative monetary policies will mean for both the stock market and broader economy. The after-effects of a strong dollar and a debate over where oil prices will settle for the long term were other key questions that hung over equity markets in the spring. After drifting higher during much of the second quarter, equities sold off at the end of the period as Greece moved closer to a potential exit from the eurozone.

OVERVIEW

The Portfolio outperformed its primary benchmark, the Russell 1000 Growth Index, and also its secondary benchmark, the S&P 500 Index, during the period. As part of our investment strategy, we seek companies that have built clear, sustainable competitive moats around their businesses, which should help them grow market share within their respective industries over time. 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 emphasizing these sustainable competitive advantages can be a meaningful driver of outperformance over longer time horizons because the market often underestimates the duration of growth for these companies and the long-term potential return to shareholders. The performance of many companies in our Portfolio during the period further validated our view that they are well positioned to grow in excess of the market.

Valeant Pharmaceuticals was a top contributor. The stock was up after the company announced better-than-expected earnings, and raised its guidance after completing its acquisition of Salix Pharmaceuticals, a maker of gastrointestinal treatments. The acquisition is another example of the same successful playbook Valeant has been running for much of the past decade. We feel this strategy has set the company apart from many of its competitors. 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.

Amazon was also a top contributor. The stock was up after the company continued to improve operating leverage in its core retail business and reported impressive results for its Amazon Web Services business. We have mentioned Amazon in previous commentaries, and believe it is a good example of the types of competitively advantaged companies we tend to seek in our portfolio. Amazon has already 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.

Starbucks was another large contributor. The stock rose after the company reported continued strong same-store sales comparisons. The frequent interactions between Starbucks and its customers are what we believe set the company apart from most other food and beverage retailers. Starbucks is a daily habit for the vast majority of its customers. Due to the habitualistic nature of coffee drinking, consumers are more willing to download Starbucks apps to their mobile phones. With more consumers using the app, Starbucks has created a more successful mobile strategy, which has allowed it to create a successful rewards program and soon, a mobile ordering system that should improve throughput and customer satisfaction even further.

While pleased with our performance, we did hold some companies that reported disappointing results during the period. Precision Castparts was our largest detractor. The company makes a number of parts for the aerospace industry and other end markets. The stock was down after the company missed earnings, due in part to lower demand for some of its products that serve the oil and gas markets, and also due to destocking by some of the customers who use Precision Castparts' products. After reporting disappointing results in recent quarters, we sold the position.

Canadian Pacific was another top detractor. Softer rail volumes due to a weaker commodity market have impacted all rail companies, and Canadian Pacific was not immune to the slowdown. However, we continue to have a high level of conviction in the long-term potential of the company. We believe Canadian Pacific's railroad network across Canada and the U.S. is a valuable asset that would be nearly impossible for other transportation and logistics companies to replicate. The company also has a significant cost advantage over the trucking industry. Going forward, we believe Canadian Pacific can continue to grow revenues and railroad volumes as it improves execution around its railroad network. The company has made substantial investments to improve its service and reliability to customers, and as service improves, it will likely drive more shippers to use Canadian Pacific instead of trucking services.

Alibaba Group was also a detractor, but we continue to have confidence in the company. The stock enjoyed a strong climb after its initial public offering, and its second quarter results after the IPO were a little disappointing, which weighed on the stock. We also think there was some heightened selling of the stock in advance of a lock-up period that was expiring for some Alibaba shareholders. Neither of these short-term issues change our long-term outlook for the company. The Chinese e-commerce company provides consumer-to-consumer, business-to-consumer and business-to-business sales services via web and mobile platforms. The company benefits not only from increasing consumer spending power in China, but also from the rapid growth in online and mobile shopping in a market where e-commerce has leapfrogged traditional brick and mortar retail.

OUTLOOK

We believe the U.S. economy is in generally good shape. We have yet to see a significant pickup in consumer spending, but believe early signs of wage growth and the savings consumers are receiving from lower gasoline prices will eventually flow through the economy. A housing market that we believe is still only in the middle innings of a recovery should also provide a long-term tailwind for the economy.

While we remain positive on the broader economy, we would expect a lower return environment for U.S. equities in the coming months. Equity markets are beginning to price in higher interest rates, but with rates poised to move up it is hard to foresee further expansion of price-to-earnings multiples for U.S. stocks. The strength of the U.S. dollar means that revenue growth, at least overseas, will be harder to come by. These factors do not make us bearish on equities, but in an environment where earnings multiples are not likely to expand and revenue growth could be more of a challenge, we think it underscores the importance of finding those select companies with truly sustainable competitive advantages who can take market share and continue to grow earnings in excess of the market.

Thank you for your investment in Janus Aspen Forty Portfolio.

(unaudited)

Janus Aspen Forty Portfolio At A Glance

5 Top Performers – Holdings

	Contribution
Valeant Pharmaceuticals International, Inc. (U.S. Shares)	1.88%
Pharmacyclics, Inc.	1.31%
Amazon.com, Inc.	0.94%
Starbucks Corp.	0.84%
Delphi Automotive PLC	0.72%

5 Bottom Performers – Holdings

	Contribution
Precision Castparts Corp.	−0.64%
Canadian Pacific Railway, Ltd. (U.S. Shares)	−0.57%
Alibaba Group Holding, Ltd. (ADR)	−0.53%
United Continental Holdings, Inc.	−0.30%
Chipotle Mexican Grill, Inc.	−0.26%

5 Top Performers – Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000® Growth Index Weighting
Health Care	3.52%	18.78%	14.46%
Financials	0.79%	13.07%	5.23%
Consumer Discretionary	0.51%	25.14%	18.79%
Materials	0.33%	2.87%	3.98%
Consumer Staples	0.21%	0.00%	10.52%

5 Bottom Performers – Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000® Growth Index Weighting
Industrials	−1.02%	9.91%	11.74%
Other**	−0.16%	3.18%	0.00%
Information Technology	−0.03%	25.38%	28.58%
Utilities	0.02%	0.00%	0.08%
Energy	0.12%	1.06%	4.46%

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)

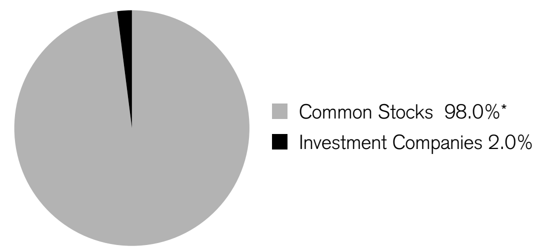
5 Largest Equity Holdings – (% of Net Assets)

As of June 30, 2015

Lowe's Cos., Inc. Specialty Retail	4.7%
Google, Inc. – Class C Internet Software & Services	3.9%
Valeant Pharmaceuticals International, Inc. (U.S. Shares) Pharmaceuticals	3.7%
MasterCard, Inc. – Class A Information Technology Services	3.6%
Starbucks Corp. Hotels, Restaurants & Leisure	3.2%
	19.1%

Asset Allocation – (% of Net Assets)

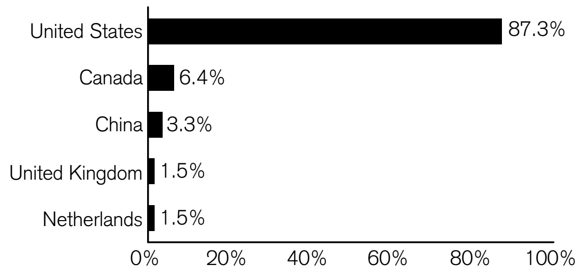
As of June 30, 2015



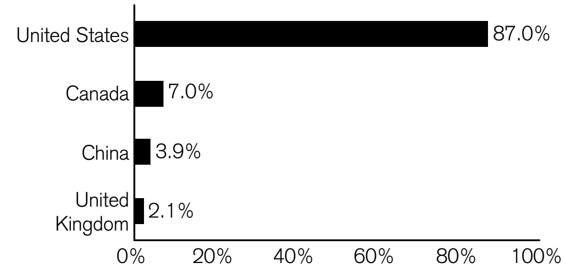
*Includes Other of (1.0)%.

Top Country Allocations – Long Positions (% of Investment Securities)

As of June 30, 2015

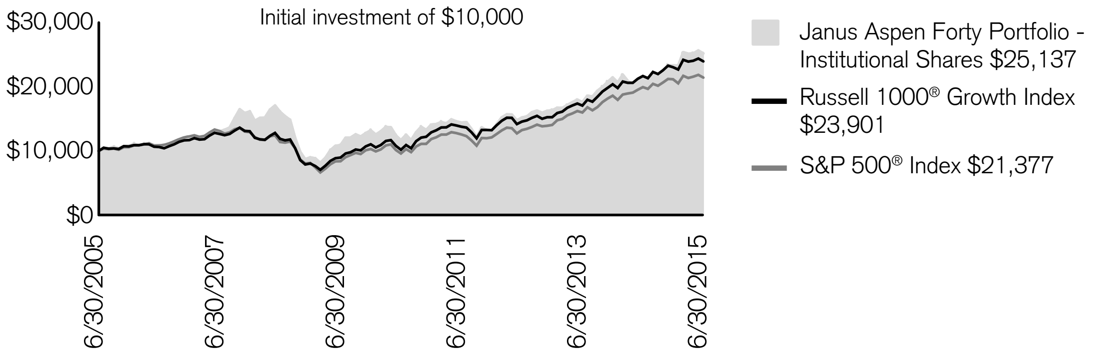


As of December 31, 2014



(unaudited)

Performance



Average Annual Total Return – for the periods ended June 30, 2015

Expense Ratios – per the May 1, 2015 prospectuses

	Fiscal Year-to-Date	One Year	Five Year	Ten Year	Since Inception*	Total Annual Fund Operating Expenses
Janus Aspen Forty Portfolio – Institutional Shares	8.06%	17.73%	16.59%	9.66%	11.11%	0.57%
Janus Aspen Forty Portfolio – Service Shares	7.92%	17.44%	16.29%	9.38%	10.80%	0.82%
Russell 1000® Growth Index	3.96%	10.56%	18.59%	9.10%	6.70%	
S&P 500® Index	1.23%	7.42%	17.34%	7.89%	7.33%	
Morningstar Quartile – Institutional Shares	–	1st	3rd	1st	1st	
Morningstar Ranking – based on total returns for Large Growth Funds	–	1/1,743	855/1,538	208/1,314	22/764	

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, lower liquidity 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; 12b-1 distribution and shareholder servicing fees (applicable to Service Shares only); transfer agent fees and expenses 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 (1/1/15)	Ending Account Value (6/30/15)	Expenses Paid During Period (1/1/15 - 6/30/15)†	Beginning Account Value (1/1/15)	Ending Account Value (6/30/15)	Expenses Paid During Period (1/1/15 - 6/30/15)†	Net Annualized Expense Ratio (1/1/15 - 6/30/15)
Institutional Shares	$1,000.00	$1,080.60	$3.56	$1,000.00	$1,021.37	$3.46	0.69%
Service Shares	$1,000.00	$1,079.20	$4.85	$1,000.00	$1,020.13	$4.71	0.94%

† 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, 2015

Shares		Value
Common Stocks – 99.0%		
Airlines – 1.3%		
183,949	United Continental Holdings, Inc.*	$ 9,751,137
Auto Components – 2.5%		
225,826	Delphi Automotive PLC	19,215,534
Biotechnology – 6.1%		
49,039	Biogen, Inc.*	19,808,814
116,390	Celgene Corp.*	13,470,396
27,662	Regeneron Pharmaceuticals, Inc.*	14,111,216
		47,390,426
Capital Markets – 4.8%		
540,023	Charles Schwab Corp.	17,631,751
662,162	E*TRADE Financial Corp.*	19,831,752
		37,463,503
Commercial Banks – 2.0%		
352,564	US Bancorp	15,301,278
Construction Materials – 2.4%		
220,670	Vulcan Materials Co.	18,520,833
Diversified Financial Services – 2.0%		
69,847	Intercontinental Exchange, Inc.	15,618,488
Energy Equipment & Services – 1.3%		
164,272	Baker Hughes, Inc.	10,135,582
Health Care Equipment & Supplies – 2.1%		
902,634	Boston Scientific Corp.*	15,976,622
Hotels, Restaurants & Leisure – 9.6%		
33,109	Chipotle Mexican Grill, Inc.*	20,030,614
189,800	Las Vegas Sands Corp.	9,977,786
341,965	Norwegian Cruise Line Holdings, Ltd.*	19,163,718
466,380	Starbucks Corp.	25,004,964
		74,177,082
Industrial Conglomerates – 3.1%		
895,309	General Electric Co.	23,788,360
Information Technology Services – 3.6%		
298,016	MasterCard, Inc. – Class A	27,858,536
Insurance – 2.8%		
216,646	Aon PLC	21,595,273
Internet & Catalog Retail – 6.5%		
51,376	Amazon.com, Inc.*	22,301,808
67,242	Ctrip.com International, Ltd. (ADR)*	4,883,114
20,461	Priceline Group, Inc.*	23,558,181
		50,743,103
Internet Software & Services – 11.7%		
253,033	Alibaba Group Holding, Ltd. (ADR)*	20,817,025
63,523	CoStar Group, Inc.*	12,784,639
195,222	Facebook, Inc. – Class A*	16,743,215
58,199	Google, Inc. – Class C	30,293,162
48,223	LinkedIn Corp. – Class A*	9,964,318
		90,602,359
Pharmaceuticals – 9.3%		
231,001	Endo International PLC*	18,399,230
130,744	Valeant Pharmaceuticals International, Inc. (U.S. Shares)*	29,044,779
514,518	Zoetis, Inc.	24,810,058
		72,254,067
Professional Services – 2.8%		
491,160	Nielsen NV	$ 21,989,233
Real Estate Investment Trusts (REITs) – 2.6%		
246,576	Crown Castle International Corp.	19,800,053
Road & Rail – 2.7%		
130,817	Canadian Pacific Railway, Ltd. (U.S. Shares)	20,960,808
Semiconductor & Semiconductor Equipment – 3.0%		
244,708	ARM Holdings PLC (ADR)	12,056,763
118,224	NXP Semiconductor NV*	11,609,597
		23,666,360
Software – 6.8%		
308,581	Adobe Systems, Inc.*	24,998,147
76,536	NetSuite, Inc.*	7,022,178
295,656	Salesforce.com, Inc.*	20,586,527
		52,606,852
Specialty Retail – 7.1%		
542,873	Lowe's Cos., Inc.	36,356,205
277,175	TJX Cos., Inc.	18,340,670
		54,696,875
Technology Hardware, Storage & Peripherals – 2.9%		
182,489	Apple, Inc.	22,888,683
Total Common Stocks (cost $610,813,983)		767,001,047
Investment Companies – 2.0%		
Money Markets – 2.0%		
15,788,000	Janus Cash Liquidity Fund LLC, 0.1291%°°,£ (cost $15,788,000)	15,788,000
Total Investments (total cost $626,601,983) – 101.0%		782,789,047
Liabilities, net of Cash, Receivables and Other Assets – (1.0)%		(7,724,686)
Net Assets – 100%		$775,064,361

Summary of Investments by Country – (Long Positions) (unaudited)

Country	*Value*	*% of Investment Securities*
United States	$683,416,961	87.3%
Canada	50,005,587	6.4
China	25,700,139	3.3
United Kingdom	12,056,763	1.5
Netherlands	11,609,597	1.5
Total	$782,789,047	100.0%

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	Measures 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, 2015.

£ 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, 2015. Unless otherwise indicated, all information in the table is for the period ended June 30, 2015.

	Share Balance at 12/31/14	*Purchases*	*Sales*	*Share Balance at 6/30/15*	*Realized Gain/(Loss)*	*Dividend Income*	*Value at 6/30/15*
Janus Aspen Forty Portfolio							
Janus Cash Liquidity Fund LLC	18,546,315	178,635,584	(181,393,899)	15,788,000	$–	$13,428	$15,788,000

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, 2015. See Notes to Financial Statements for more information.

Valuation Inputs Summary (as of June 30, 2015)

	Level 1 – Quoted Prices	***Level 2 – Other Significant Observable Inputs***	***Level 3 – Significant Unobservable Inputs***
Janus Aspen Forty Portfolio			
Assets			
Investments in Securities:			
Common Stocks	$767,001,047	$ –	$–
Investment Companies	–	15,788,000	–
Total Assets	$767,001,047	$15,788,000	$–

Statement of Assets and Liabilities

As of June 30, 2015 (unaudited)	*Janus Aspen Forty Portfolio*
Assets:	
Investments, at cost	$626,601,983
Unaffiliated investments, at value	$767,001,047
Affiliated investments, at value	15,788,000
Cash	265
Non-interested Trustees' deferred compensation	15,644
Receivables:	
Portfolio shares sold	33,197
Dividends	328,367
Dividends from affiliates	1,809
Foreign dividend tax reclaim	113,759
Other assets	694
Total Assets	783,282,782
Liabilities:	
Payables:	
Portfolio shares repurchased	7,446,156
Advisory fees	430,052
Portfolio administration fees	6,286
Transfer agent fees and expenses	529
12b-1 Distribution and shareholder servicing fees	104,856
Non-interested Trustees' fees and expenses	5,212
Non-interested Trustees' deferred compensation fees	15,644
Accrued expenses and other payables	209,686
Total Liabilities	8,218,421
Net Assets	$775,064,361
Net Assets Consist of:	
Capital (par value and paid-in surplus)	$531,918,410
Undistributed net investment income/(loss)	(333,618)
Undistributed net realized gain/(loss) from investments and foreign currency transactions	87,289,731
Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation	156,189,838
Total Net Assets	$775,064,361
Net Assets - Institutional Shares	$280,486,531
Shares Outstanding, $0.001 Par Value (unlimited shares authorized)	8,009,576
Net Asset Value Per Share	$ 35.02
Net Assets - Service Shares	$494,577,830
Shares Outstanding, $0.001 Par Value (unlimited shares authorized)	14,623,576
Net Asset Value Per Share	$ 33.82

See Notes to Financial Statements.

Statement of Operations

For the period ended June 30, 2015 (unaudited)	*Janus Aspen Forty Portfolio*
Investment Income:	
Dividends	$ 3,132,534
Dividends from affiliates	13,428
Other income	413
Foreign tax withheld	(56,641)
Total Investment Income	3,089,734
Expenses:	
Advisory fees	2,636,416
12b-1 Distribution and shareholder servicing fees:	
Service Shares	623,031
Other transfer agent fees and expenses:	
Institutional Shares	1,381
Service Shares	1,099
Shareholder reports expense	23,494
Registration fees	18,846
Custodian fees	11,280
Professional fees	18,210
Non-interested Trustees' fees and expenses	10,548
Portfolio administration fees	30,962
Other expenses	31,834
Total Expenses	3,407,101
Net Expenses	3,407,101
Net Investment Income/(Loss)	(317,367)
Net Realized Gain/(Loss) on Investments:	
Investments and foreign currency transactions	87,593,385
Total Net Realized Gain/(Loss) on Investments	87,593,385
Change in Unrealized Net Appreciation/Depreciation:	
Investments, foreign currency translations and non-interested Trustees' deferred compensation	(25,018,667)
Total Change in Unrealized Net Appreciation/Depreciation	(25,018,667)
Net Increase/(Decrease) in Net Assets Resulting from Operations	$ 62,257,351

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 2015	2014
Operations:		
Net investment income/(loss)	$ (317,367)	$ (637,518)
Net realized gain/(loss) on investments	87,593,385	160,492,743
Change in unrealized net appreciation/depreciation	(25,018,667)	(96,604,872)
Net Increase/(Decrease) in Net Assets Resulting from Operations	62,257,351	63,250,353
Dividends and Distributions to Shareholders:		
Net Investment Income		
Institutional Shares	–	(503,982)
Service Shares	–	(154,665)
Net Realized Gain from Investment Transactions		
Institutional Shares	(57,445,111)	(93,285,383)
Service Shares	(102,554,820)	(152,735,352)
Net Decrease from Dividends and Distributions to Shareholders	(159,999,931)	(246,679,382)
Capital Share Transactions:		
Shares Sold		
Institutional Shares	18,488,465	19,546,852
Service Shares	20,855,302	25,026,559
Reinvested Dividends and Distributions		
Institutional Shares	57,445,111	93,789,365
Service Shares	102,554,820	152,890,017
Shares Repurchased		
Institutional Shares	(61,663,379)	(99,632,827)
Service Shares	(56,672,623)	(98,791,422)
Net Increase/(Decrease) from Capital Share Transactions	81,007,696	92,828,544
Net Increase/(Decrease) in Net Assets	(16,734,884)	(90,600,485)
Net Assets:		
Beginning of period	791,799,245	882,399,730
End of period	$ 775,064,361	$ 791,799,245
Undistributed Net Investment Income/(Loss)	$ (333,618)	$ (16,251)

See Notes to Financial Statements.

Financial Highlights

Institutional Shares

For a share outstanding during the period ended June 30, 2015 (unaudited) and each year ended December 31	*Janus Aspen Forty Portfolio*					
	2015	*2014*	*2013*	*2012*	*2011*	*2010*
Net Asset Value, Beginning of Period	$40.27	$53.34	$40.95	$33.22	$35.74	$33.61
Income/(Loss) from Investment Operations:						
Net investment income/(loss)	0.02(1)	0.03(1)	0.38	0.47	0.23	0.19
Net realized and unrealized gain/(loss)	3.43	3.08	12.34	7.54	(2.62)	2.06
Total from Investment Operations	3.45	3.11	12.72	8.01	(2.39)	2.25
Less Dividends and Distributions:						
Dividends (from net investment income)	–	(0.09)	(0.33)	(0.28)	(0.13)	(0.12)
Distributions (from capital gains)	(8.70)	(16.09)	–	–	–	–
Total Dividends and Distributions	(8.70)	(16.18)	(0.33)	(0.28)	(0.13)	(0.12)
Net Asset Value, End of Period	$35.02	$40.27	$53.34	$40.95	$33.22	$35.74
Total Return*	8.06%	8.73%	31.23%	24.16%	(6.69)%	6.72%
Net Assets, End of Period (in thousands)	$280,487	$299,546	$355,429	$488,374	$459,459	$567,322
Average Net Assets for the Period (in thousands)	$308,734	$307,359	$491,231	$512,799	$518,818	$553,994
Ratios to Average Net Assets:						
Ratio of Gross Expenses**	0.69%	0.57%	0.55%	0.55%	0.70%	0.67%
Ratio of Net Expenses (After Waivers and Expense Offsets)**	0.69%	0.57%	0.55%	0.55%	0.70%	0.67%
Ratio of Net Investment Income/(Loss)**	0.07%	0.07%	0.31%	1.03%	0.56%	0.52%
Portfolio Turnover Rate	30%	46%	61%	10%	46%	36%

Service Shares

For a share outstanding during the period ended June 30, 2015 (unaudited) and each year ended December 31	*Janus Aspen Forty Portfolio*					
	2015	*2014*	*2013*	*2012*	*2011*	*2010*
Net Asset Value, Beginning of Period	$39.21	$52.40	$40.28	$32.72	$35.24	$33.17
Income/(Loss) from Investment Operations:						
Net investment income/(loss)	(0.03)(1)	(0.07)(1)	–(2)	0.31	0.09	0.07
Net realized and unrealized gain/(loss)	3.34	2.99	12.38	7.47	(2.52)	2.08
Total from Investment Operations	3.31	2.92	12.38	7.78	(2.43)	2.15
Less Dividends and Distributions:						
Dividends (from net investment income)	–	(0.02)	(0.26)	(0.22)	(0.09)	(0.08)
Distributions (from capital gains)	(8.70)	(16.09)	–	–	–	–
Total Dividends and Distributions	(8.70)	(16.11)	(0.26)	(0.22)	(0.09)	(0.08)
Net Asset Value, End of Period	$33.82	$39.21	$52.40	$40.28	$32.72	$35.24
Total Return*	7.92%	8.47%	30.89%	23.82%	(6.91)%	6.48%
Net Assets, End of Period (in thousands)	$494,578	$492,253	$526,971	$471,002	$417,408	$532,645
Average Net Assets for the Period (in thousands)	$505,296	$493,575	$486,845	$468,967	$475,743	$567,062
Ratios to Average Net Assets:						
Ratio of Gross Expenses**	0.94%	0.82%	0.81%	0.80%	0.95%	0.92%
Ratio of Net Expenses (After Waivers and Expense Offsets)**	0.94%	0.82%	0.81%	0.80%	0.95%	0.92%
Ratio of Net Investment Income/(Loss)**	(0.17)%	(0.17)%	0.04%	0.81%	0.31%	0.25%
Portfolio Turnover Rate	30%	46%	61%	10%	46%	36%

* 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 year or period.
(2) Less than $0.005 on a per share basis.

See Notes to Financial Statements.

Notes to Financial Statements (unaudited)

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 thirteen 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 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.

Shareholders, including other portfolios, participating insurance companies, as well as accounts, may from time to time own (beneficially or of record) a significant percentage of the Portfolio’s Shares and can be considered to “control” the Portfolio when that ownership exceeds 25% of the Portfolio’s assets (and which may differ from control as determined in accordance with accounting principles generally accepted in the United States of America).

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 approved professional pricing services or, as needed, by obtaining market quotations from independent broker-dealers. Most debt securities 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. Certain short-term securities maturing within 60 days or less may be evaluated and valued on an amortized cost basis provided that the amortized cost determined approximates market value. 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. Special valuation considerations may apply with respect to “odd-lot” fixed-income transactions which, due to their small size, may receive evaluated prices by pricing services which reflect a large block trade and not what actually could be obtained for the odd-lot position. 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.

Valuation Inputs Summary

FASB ASC 820, Fair Value Measurements and Disclosures (“ASC 820”), defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding 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 and establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value. These inputs are summarized into three broad levels:

Level 1 – Unadjusted quoted prices in active markets the Portfolio has the ability to access for identical assets or liabilities.

Level 2 – Observable inputs other than unadjusted quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Assets or liabilities categorized as Level 2 in the hierarchy generally include: debt securities fair valued in accordance with the evaluated bid or ask prices supplied by a pricing service; securities traded on OTC markets and listed securities for which no sales are reported that are fair 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; certain short-term debt securities with maturities of 60 days or less that are fair valued at amortized cost; and equity securities of foreign issuers whose fair value is determined by using systematic fair valuation models provided by independent third parties in order to adjust for stale pricing which may occur between the close of certain foreign exchanges and the close of the NYSE. 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.

Level 3 – Unobservable inputs for the asset or liability to the extent that relevant observable inputs are not available, representing the Portfolio's own assumptions about the assumptions that a market participant would use in valuing the asset or liability, and that would be based on the best information available.

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 fair 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, 2015 to fair 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 of the fair value hierarchy during the period. The Portfolio recognizes transfers between the levels as of the beginning of the fiscal year.

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 Portfolio 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, counterparty risk, political and economic risk, regulatory risk and equity risk. Risks may arise from unanticipated movements in the value of foreign currencies relative to the U.S. dollar.

Dividends and 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 treat a portion of its payment to a redeeming shareholder, which represents the pro rata share of undistributed net investment income and net realized gains, as a distribution for federal income tax purposes (tax equalization).

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.

2. Other Investments and Strategies

Additional Investment Risk

The financial crisis in both the U.S. and global economies over the past several years has resulted, and may continue to result, in 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 could each 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") 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 expanded 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 and may continue to experience 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 restructurings 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.

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, corporate bonds, 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 (%)*
Janus Aspen Forty Portfolio	0.64

The investment advisory fee rate is determined by calculating a base fee (shown in the table above) and applying a performance adjustment. The base fee rate is the same as the contractual investment advisory fee rate. 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 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.

Portfolio	*Performance Adjusted Investment Advisory Fee Rate (%)*
Janus Aspen Forty Portfolio	0.66

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 services including, but not limited to, recordkeeping, accounting, order processing and other shareholder services for the Portfolio.

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 for the sale and distribution and/or shareholder servicing of the Service Shares at an annual rate of up to 0.25% of the average daily net assets of the Service 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. These amounts are disclosed as "12b-1 Distribution and shareholder servicing fees" on the Statement of Operations. Payments under the Plan are not tied exclusively to actual 12b-1 distribution and shareholder service expenses, and the payments may exceed 12b-1 distribution and shareholder service expenses actually incurred. If any of the Portfolio's actual 12b-1 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 "12b-1 Distribution fees and shareholder servicing fees" in the Statement of Operations.

Janus Capital furnishes certain administration, compliance, and accounting services for the Portfolio and is reimbursed by the Portfolio for certain of its costs in providing those services (to the extent Janus Capital seeks reimbursement and such costs are not otherwise waived). The Portfolio also pays for 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. The Portfolio pays these costs based on out-of-pocket expenses incurred by Janus Capital, and these 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. These amounts are disclosed as "Portfolio administration fees" on the Statement of Operations. In addition, employees of Janus Capital and/or its affiliates may serve as officers of the Trust. Some expenses related to compensation payable to the Portfolios' Chief Compliance Officer and compliance staff are shared with the Portfolio. Total compensation of $21,949 was paid to the Chief Compliance Officer and certain compliance staff by the Trust during the period ended June 30, 2015. The Portfolio's portion is reported as part of "Other expenses" on 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 included as of June 30, 2015 on the Statement of Assets and Liabilities in the asset, "Non-interested Trustees' deferred compensation," and 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, 2015 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 $146,000 were paid by the Trust to a Trustee under the Deferred Plan during the period ended June 30, 2015.

Pursuant to the provisions of the 1940 Act and related rules, 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 Funds"). As adviser, Janus Capital has an inherent conflict of interest because of its fiduciary duties to the affiliated money market funds or cash management pooled investment vehicles and the Investing Funds. 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 product compliant with Rule 2a-7 under the 1940 Act. 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. The units of Janus Cash Liquidity Fund LLC are not charged any management fee, sales charge or service fee.

Any purchases and sales, realized gains/losses and recorded dividends from affiliated investments during the period ended June 30, 2015 can be found in a table located 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, 2015 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/ (Depreciation)*
Janus Aspen Forty Portfolio	$627,074,914	$162,802,979	$(7,088,846)	$155,714,133

5. Capital Share Transactions

For the period ended June 30 (unaudited) and the year ended December 31	*Janus Aspen Forty Portfolio 2015*	*2014*
Transactions in Portfolio Shares – Institutional Shares		
Shares sold	431,313	438,521
Reinvested dividends and distributions	1,601,927	2,552,786
Shares repurchased	(1,462,719)	(2,216,104)
Net Increase/(Decrease) in Portfolio Shares	570,521	775,203
Shares Outstanding, Beginning of Period	7,439,055	6,663,852
Shares Outstanding, End of Period	8,009,576	7,439,055
Transactions in Portfolio Shares – Service Shares		
Shares sold	498,207	568,799
Reinvested dividends and distributions	2,961,444	4,268,286
Shares repurchased	(1,391,171)	(2,338,393)
Net Increase/(Decrease) in Portfolio Shares	2,068,480	2,498,692
Shares Outstanding, Beginning of Period	12,555,096	10,056,404
Shares Outstanding, End of Period	14,623,576	12,555,096

6. Purchases and Sales of Investment Securities

For the period ended June 30, 2015, 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	$234,303,278	$303,571,142	$–	$–

7. Subsequent Event

Management has evaluated whether any events or transactions occurred subsequent to June 30, 2015 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 10, 2014, 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, 2015 through January 1 or February 1, 2016, 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 (excluding out of pocket costs), 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, and overseeing communications with shareholders and 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 an independent data provider, and with the Fund's benchmark index. In this regard, the independent fee consultant found that the overall Funds' performance has improved: for the 36 months ended September 30, 2014, approximately 64% of the Funds were in the top two Lipper quartiles of performance, and for the 12 months ended September 30, 2014, approximately 57% 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 first Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Global Bond Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- 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, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Real Return Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014. 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 Short-Term Bond Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- 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, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance.
- 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, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014. 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 first Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Global Allocation Fund – Growth, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014. 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

second Lipper quartile for the 36 months ended May 31, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014.

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, 2014. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and its limited performance history.

Value Funds

- For Perkins International Value Fund, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 12 months ended May 31, 2014. 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 its limited performance history.
- For Perkins Global Value Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the bottom Lipper quartile for the 12 months ended May 31, 2014.
- 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, 2014 and the bottom Lipper quartile for the 12 months ended May 31, 2014. 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 were 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, 2014 and the bottom Lipper quartile for the 12 months ended May 31, 2014. 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 were 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, 2014. 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 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, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014. 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 were taking to improve performance.
- For Perkins Value Plus Income Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014.

Mathematical Funds

- For INTECH Global Income Managed Volatility Fund (formerly named 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, 2014.
- For INTECH International Managed Volatility Fund (formerly named INTECH International Fund), the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- 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, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014.
- For INTECH U.S. Managed Volatility Fund (formerly named 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, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014.
- For INTECH U.S. Managed Volatility Fund II (formerly named 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, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014.

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, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.

- For Janus Contrarian Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Enterprise Fund, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014. 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 Forty Fund, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2014 and the bottom Lipper quartile for the 12 months ended May 31, 2014. 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 Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014. 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 under-performance, and the steps Janus Capital had taken or was taking to improve performance.
- 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, 2014 and in the second Lipper quartile for the 12 months ended May 31, 2014. 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, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- 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, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Twenty Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014.
- 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, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014.

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, 2014. 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 its limited performance history.
- For Janus Emerging Markets Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014. 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 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, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Global Real Estate Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- 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, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- 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, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014. 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, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014.

- 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, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014.
- 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, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014. 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, 2014. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, 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 36 months ended May 31, 2014 and the bottom Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, and the steps Janus Capital had taken or was taking to improve performance.

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, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Aspen Enterprise Portfolio, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014. 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 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, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Aspen Forty Portfolio, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2014 and the bottom Lipper quartile for the 12 months ended May 31, 2014. 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 Global Allocation Portfolio – Moderate, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 12 months ended May 31, 2014.
- 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, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014. 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 Technology Portfolio, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Aspen INTECH U.S. Low Volatility Portfolio, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Aspen Janus Portfolio, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014. 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 Overseas Portfolio, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014. 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, 2014 and the bottom Lipper quartile for the 12 months ended May 31, 2014. 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 were taking to improve performance.
- 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, 2014. 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, including steps taken to improve performance, 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 an independent data provider. 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, but excluding out-of-pocket costs) fees for many of the Funds, after applicable waivers, was below the mean management fee rate of the respective peer group of funds selected by an independent data provider. 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 19% 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 15% below the mean management fees for their Expense Groups and 20% 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 or primarily 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 considered that Janus Capital 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; (3) the average spread between management fees charged to the Funds and those charged to Janus Capital's institutional accounts is reasonable relative to the average spreads seen in the industry; and (4) the retained fee margins implied by Janus Capital's subadvised fees when compared to its mutual fund fees are reasonable relative to retained fee margins in the industry.

The Trustees considered the fees for each Fund for its fiscal year ended in 2013, and noted the following with regard to each Fund's total expenses, net of applicable fee waivers (the Fund's "total expenses"):

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 were equal to or below the peer group mean for all 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 all 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 and other expenses in order to maintain a positive yield.
- 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 and other expenses in order to maintain a positive yield.

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 the Fund's total expenses were below the peer group mean for all share classes.
- 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 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.

Value Funds

- For Perkins International 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 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 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 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, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Perkins Select 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 Small 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, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Perkins Value Plus Income Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.

Mathematical Funds

- For INTECH Global Income Managed Volatility Fund (formerly named INTECH Global Dividend Fund), the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For INTECH International Managed Volatility Fund (formerly named 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. Managed Volatility Fund (formerly named INTECH U.S. Value Fund), the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For INTECH U.S. Managed Volatility Fund II (formerly named INTECH U.S. Growth 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, 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 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 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 Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- 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 the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Triton 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 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 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 Real Estate 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 Janus Global Research 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 the Fund's total expenses were below the peer group mean for all share classes.
- 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 the Fund's total expenses were below the peer group mean for all share classes.

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, although the Fund's total expenses were above the peer group mean for its sole 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 limit.
- 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 the Fund's total expenses were below the peer group mean for both share classes.

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 by Janus Capital when allocating various expenses of Janus Capital and its affiliates with respect to contractual relationships with 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 each Fund's total expenses were 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 their independent fee consultant had provided analysis of economies of scale during prior years. They also noted that, although many Funds pay advisory fees at a base fixed rate as a percentage of net assets, without any breakpoints, the base contractual management fee rate paid by most of the Funds, before any adjustment for performance, if applicable, was below the mean contractual management fee rate of the Fund's peer group identified by an independent data provider. They also noted that 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, given the limitations of various analytical approaches to economies of scale considered in prior years, 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 and subadvisers to the Funds 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 and/or a subadviser to a Fund. The Trustees concluded that Janus Capital's and the subadvisers' 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 and subadvisers pursuant to the agreements and the fees to be paid by each Fund therefor, the Funds and Janus Capital and the subadvisers may potentially benefit from their relationship with each other in other ways. They concluded that Janus Capital and/or the subadvisers 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 and/or the subadvisers' receipt of those products and services as well as research products and services acquired through commissions paid by other clients of Janus Capital and/or other clients of the subadvisers. They further concluded that the success of any Fund could attract other business to Janus Capital, the subadvisers or other Janus funds, and that the success of Janus Capital and the subadvisers could enhance Janus Capital's and the subadvisers' ability to serve the Funds.

Useful Information About Your Portfolio Report (unaudited)

Management Commentary

The Management Commentary in this report includes valuable insight 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. A company may be allocated 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, 2015. As the investing environment changes, so could opinions. These views are unique and are not necessarily shared by fellow employees or by Janus in general.

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.

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 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).

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.

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.

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.

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. Do not 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 does not 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

Useful Information About Your Portfolio Report (unaudited) (continued)

investment style and/or outlook of the portfolio manager(s) and/or investment personnel. A 100% rate implies that an amount equal to the value of the entire portfolio was replaced once during the fiscal year; a 50% rate means that an amount equal to the value of half the portfolio is traded in a year; and a 200% rate means that an amount equal to the value of the entire portfolio is traded every six months.

Notes

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.

Funds distributed by Janus Distributors LLC

Investment products offered are: NOT FDIC-INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

C-0815-94122 109-24-81115 08-15

PIMCO

Your Global Investment Authority

PIMCO Variable Insurance Trust

PIMCO Foreign Bond Portfolio (U.S. Dollar Hedged)

This brochure contains the following documents:

- Supplement dated July 31, 2015 to the Prospectus for each share class regarding a disclosure related to how portfolio shares are priced.

A company of Allianz

PIMCO Variable Insurance Trust

Supplement Dated July 31, 2015, to the Prospectus for Each Share Class of Each of the PIMCO CommodityRealReturn® Strategy Portfolio, PIMCO Diversified Income Portfolio, PIMCO Emerging Markets Bond Portfolio, PIMCO Foreign Bond Portfolio (Unhedged), PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged), PIMCO Global Advantage® Strategy Bond Portfolio, PIMCO Global Bond Portfolio (Unhedged), PIMCO Global Diversified Allocation Portfolio, PIMCO Global Multi-Asset Managed Allocation Portfolio, PIMCO Global Multi-Asset Managed Volatility Portfolio, PIMCO High Yield Portfolio, PIMCO Long-Term U.S. Government Portfolio, PIMCO Low Duration Portfolio, PIMCO Real Return Portfolio, PIMCO Short-Term Portfolio, PIMCO Total Return Portfolio, and PIMCO Unconstrained Bond Portfolio, each dated April 30, 2015, each as supplemented from time to time (the "Prospectuses")

Effective immediately, the "How Portfolio Shares Are Priced" section in each Prospectus is deleted in its entirety and replaced with the following:

How Portfolio Shares Are Priced

The price of the Portfolio's shares is based on the Portfolio's NAV. The NAV of a class of the Portfolio's shares is determined by dividing the total value of the Portfolio's portfolio investments and other assets attributable to that class, less any liabilities, by the total number of shares outstanding of that class.

Portfolio shares are ordinarily valued as of the NYSE Close on each day that the NYSE is open. 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. The Portfolio reserves the right to change the time its NAV is calculated if the Portfolio closes earlier, or as permitted by the SEC.

For purposes of calculating NAV, portfolio securities and other assets for which market quotes are readily available are valued at market value. 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 established market makers or prices (including evaluated prices) supplied by the Portfolio's approved pricing services, quotation reporting systems and other third-party sources (together, "Pricing Services"). The Portfolio will normally use pricing data for domestic equity securities received shortly after the NYSE Close and does not normally take into account trading, clearances or settlements that take place after the NYSE Close. A foreign (non-U.S.) equity security traded on a foreign exchange or on more than one exchange is typically valued using pricing information from the exchange considered by the manager to be the primary exchange. A foreign (non-U.S.) equity security will be valued as of the close of trading on the foreign exchange, or the NYSE Close, if the NYSE Close occurs before the end of trading on the foreign exchange. Domestic and foreign (non-U.S.) fixed income securities, non-exchange traded derivatives, and equity options are normally valued on the basis of quotes obtained from brokers and dealers or Pricing Services using data reflecting the earlier closing of the principal markets for those securities. Prices obtained from Pricing Services may be based on, among other things, information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Certain fixed income securities purchased on a delayed-delivery basis are marked to market daily until settlement at the forward settlement date. Exchange-traded options, except equity options, futures and options on futures are valued at the settlement price determined by the relevant exchange. Swap agreements are valued on the basis of bid quotes obtained from brokers and dealers or market-based prices supplied by Pricing Services or other pricing sources. With respect to any portion of the Portfolio's assets that are invested in one or more open-end management investment companies, the Portfolio's NAV will be calculated based upon the NAVs of such investments.

If a foreign (non-U.S.) equity security's value has materially changed after the close of the security's primary exchange or principal market but before the NYSE Close, the security may be valued at fair value based on procedures established and approved by the Board of Trustees. Foreign (non-U.S.) equity securities that do not trade when the NYSE is open are also valued at fair value. With respect to foreign (non-U.S.) equity securities, the Portfolio may determine the fair value of investments based on information provided by Pricing Services and other third-party vendors, which may recommend fair value or adjustments with reference to other securities, indices or assets. In considering whether fair valuation is required and in determining fair values, the Portfolio may, among other things, consider significant events (which may be considered to include changes in the value of U.S. securities or securities indices) that occur after the close of the relevant market and before the NYSE Close. The Portfolio may utilize modeling tools provided by third-party vendors to determine fair values of non-U.S. securities. Foreign (non-U.S.) exchanges may permit trading in foreign (non-U.S.) equity securities on days when the Trust is not open for business, which may result in the Portfolio's portfolio investments being affected when you are unable to buy or sell shares.

Senior secured floating rate loans for which an active secondary market exists to a reliable degree will be valued at the mean of the last available bid/ask prices in the market for such loans, as provided by a Pricing Service. Senior secured floating rate loans for which an active secondary market does not exist to a reliable degree will be valued at fair value, which is intended to approximate market value. In valuing a senior secured floating rate loan at fair value, the factors considered may include, but are not limited to, the following: (a) the creditworthiness of the borrower and any intermediate participants, (b) the terms of the loan, (c) recent prices in the market for similar loans, if any, and (d) recent prices in the market for instruments of similar quality, rate, period until next interest rate reset and maturity.

Investments valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from Pricing Services. 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. As a result, to the extent that the Portfolio holds foreign (non-U.S.) securities, the NAV of the Portfolio's shares may change at times when you cannot purchase, redeem or exchange shares.

Investments for which market quotes or market based valuations are not readily available are valued at fair value as determined in good faith by the Board of Trustees or persons acting at their direction. The Board of Trustees has adopted methods for valuing securities and other assets in circumstances where market quotes are not readily available, and has delegated to PIMCO the responsibility for applying the fair valuation methods. In the event that market quotes or market based valuations are not readily available, and the security or asset cannot be valued pursuant to a Board approved valuation method, the value of the security or asset will be determined in good faith by the Valuation Oversight Committee of the Board of Trustees, generally based on recommendations provided by PIMCO. 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, broker quotes, Pricing Services prices), 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 assets. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which the securities trade do not open for trading for the entire day and no other market prices are available. The Board has delegated to PIMCO the responsibility for monitoring significant events that may materially affect the values of the Portfolio's securities or assets and for determining whether the value of the applicable securities or assets should be reevaluated in light of such significant events.

When the Portfolio uses fair valuation to determine its NAV, securities will not be priced on the basis of quotes from the primary market in which they are traded, but rather may be priced by another method that the Board of Trustees or persons acting at their direction believe reflects fair value. Fair valuation 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 ensure that fair values determined by the Board of Trustees 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. The Portfolio's use of fair valuation may also help to deter "stale price arbitrage" as discussed above under "Frequent or Excessive Purchases, Exchanges and Redemptions."

Investors Should Retain This Supplement for Future Reference

PVIT_SUPP2_073115

This supplement is not part of the Semiannual Report and is not authorized for distribution to prospective investors unless preceded or accompanied by a current prospectus.

(THIS PAGE INTENTIONALLY LEFT BLANK)

PIMCO

Semiannual Report

June 30, 2015

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,

Please find enclosed the Semiannual Report for the PIMCO Variable Insurance Trust covering the six-month reporting period ended June 30, 2015. On the following pages are specific details about the Portfolio's investment performance and a discussion of the factors that most affected performance over the reporting period.

Over the reporting period, investor concerns over the potential for global deflation gradually receded as oil prices rose during the latter part of the reporting period after significantly declining in 2014 and early 2015. In addition, the outlook for economic growth brightened, particularly for developed market economies led by continuing growth in the U.S. and improvement in Europe. Investors, however, were kept on edge by events in Greece, in which the debt crisis worsened sharply towards the latter part of the reporting period. Furthermore, Chinese equity markets experienced heightened volatility and data pointed to a slowing Chinese economy, prompting Chinese policymakers to lower interest rates. In general, longer-maturity global interest rates rose and yield curves steepened, while risk assets such as equities, high yield and emerging markets ("EM") ended the period on a weaker note.

The U.S. economy continued to show signs of strength. First quarter 2015 gross domestic product ("GDP") was revised up to show a more modest decline than previously reported, while other data suggested the U.S. economy is improving after a brief winter downturn. As a result, a healthier labor market, an improving outlook for consumer spending, and modest rebound in oil prices led to a sell-off in the benchmark ten-year U.S. Treasury, causing the yield to rise compared to the beginning of the reporting period. Yields on shorter-maturity U.S. Treasuries declined modestly, as investors continued to debate when the Federal Reserve ("Fed") would begin raising its benchmark interest rate. As such, lingering uncertainty about the start and pace of a potential Fed interest rate hike also led to softness in the U.S. dollar rally, which declined after experiencing a strong rally that began in 2014.

Volatility in Eurozone markets increased during the second half of the reporting period despite gradual improvement in the underlying economies. After falling to an all-time low of 0.07% on April 17, 2015, the ten-year German Bund yield increased nearly 100 basis points before settling at 0.76% at the end of the reporting period. The rise in yield was caused by several fundamental factors that played a role, such as better economic activity, easing credit conditions and a modest uptick in consumer prices, which led to a reduction in deflationary fears. Technical factors also exacerbated the size and speed of the move in the German Bund yield. The debt crisis in Greece added to investor uncertainty, which continues to be a concern outside of the reporting period as events remain fluid.

Finally, market volatility was not confined to Europe as economic conditions and policy choices led to equity volatility in Asia. Weak industrial production and falling inflation prompted the People's Bank of China to cut interest rates multiple times, while ongoing challenges in the banking sector and property market led the Chinese government to recapitalize local government financing entities. Chinese equities were most volatile during the latter part of the period, as thousands of newly opened stock trading accounts first sent the Shanghai Composite soaring before the index corrected by the end of June 2015.

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 0.03% for the reporting period as intermediate- and longer-maturity yields rose. The benchmark ten-year U.S. Treasury note yielded 2.35% at the end of the reporting period, up from 2.17% on December 31, 2014. The Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, declined 0.10% for the reporting period.
- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Barclays U.S. TIPS Index, returned 0.34% over the reporting period. U.S. TIPS were supported by a steeper real yield curve in which short maturity interest rates declined, while longer maturity interest rates rose. U.S. TIPS slightly outperformed nominal U.S. Treasuries, as breakeven inflation levels, a proxy for inflation expectations, moved higher as the effect of lower oil prices rolled off. Diversified commodities, as represented by the Bloomberg Commodity Index Total Return, declined 1.56% over the period.

- Agency mortgage-backed securities ("MBS"), as represented by the Barclays U.S. MBS Fixed Rate Index, returned 0.30% over the reporting period. Non-Agency MBS prices were flat to modestly higher and the sector continued to benefit from limited new issue supply and strong investor demand. Underlying collateral performance has generally been in-line with investor expectations and continues to gradually improve over the long-term.
- U.S. investment grade credit, as represented by the Barclays U.S. Credit Index, declined 0.78% over the reporting period. Global investment grade credit spreads widened amid a record pace of primary supply in the U.S. market. Heightened volatility surrounding Greece's bailout discussions also played a role in pushing spreads wider.
- Global high yield bonds, as measured by the BofA Merrill Lynch Developed Markets High Yield Constrained Index, returned 2.34%. The energy sector, which weighed on high yield returns in 2014 due to declining oil prices, led the asset class higher during the first half of 2015, despite weakness during June 2015. Overall, high yield spreads and yields remained relatively unchanged since the beginning of 2015.
- EM external debt, as represented by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned 1.76% over the reporting period. EM local bonds, as represented by the JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged), declined 4.88% over the period. Idiosyncratic forces remained a dominant theme over the period. China, for example, continued to expand its accommodative measures as both growth and inflation showed signs of further moderation. The Russian ruble continued its recovery from 2014 weakness before stumbling towards the end of the period as European Union sanctions were extended.
- U.S. equities, as represented by the S&P 500 Index, returned 1.23% and developed market equities outside the U.S., as represented by the MSCI EAFE Net Dividend Index (USD Unhedged), returned 5.52% over the reporting period. EM equities, as represented by the MSCI Emerging Markets Index (Net Dividends in USD), returned 2.95% over the same period. Headwinds from a stronger U.S. dollar, falling commodity prices, concerns over slower Chinese economic growth, and declining Chinese equities late in the reporting period were contributing factors in EM equity underperformance relative to developed market equities.

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 broad investment needs.

Sincerely,

Brent R. Harris
Chairman of the Board,
PIMCO Variable Insurance Trust

August 20, 2015

Important Information About the Portfolio

PIMCO Variable Insurance Trust (the "Trust") is an open-end management investment company currently consisting of nineteen 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, etc.). Accordingly, changes in interest rates can be sudden and significant, and there is no guarantee that Fund management will anticipate such movement accurately.

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 as the Fed ended its quantitative easing program in October 2014. 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 further reduce the net assets of 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 net assets 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, sovereign debt 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, leverage 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.

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, as well as the risk that further 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. For example, certain transactions may be prohibited and/or existing investments may become illiquid (e.g., in the event that transacting in certain existing investments is prohibited), which could cause the Portfolio to sell other portfolio holdings at a disadvantageous time or price in order to meet shareholder redemptions.

The geographical classification of foreign (non-U.S.) securities in this report are classified by the country of incorporation of a holding. In certain instances, a security's country of incorporation may be different from its country of economic exposure.

On the Portfolio Summary page in this Shareholder Report, the Average Annual Total Return table and Cumulative Returns chart measure performance assuming that any dividend and capital gain distributions were reinvested. The Portfolio's past performance, before and after taxes, is not necessarily an indication of how the Portfolio will perform in the future.

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 pvit.pimco-funds.com, and on the Securities and Exchange Commission's ("SEC") website at 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 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 pvit.pimco-funds.com. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

The 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, 2015 to June 30, 2015.

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

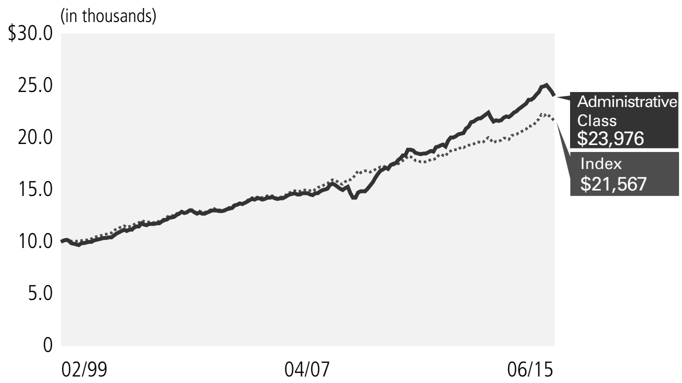
The information in the table under the heading "Hypothetical (5% return before expenses)" provides information about hypothetical account values and hypothetical expenses based on the Portfolio's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio's 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, 2015



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Allocation Breakdown†

United States	18.0%
Italy	16.6%
United Kingdom	10.1%
France	5.7%
Spain	5.2%
Short-Term Instruments‡	2.5%
Other	41.9%

† % of Investments, at value as of 06/30/15

‡ Includes Central Funds used for Cash Management Purposes

Average Annual Total Return for the period ended June 30, 2015

	6 Months*	1 Year	5 Years	10 Years	Class Inception (02/16/1999)
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Administrative Class	-1.69%	3.90%	5.58%	5.46%	5.47%
JPMorgan GBI Global ex-US Index Hedged in USD±	-1.02%	4.22%	3.93%	4.25%	4.81%

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 pvit.pimco-funds.com. The Portfolio's total annual operating expense ratio as stated in the Portfolio's current prospectus, as supplemented to date, is 0.91% for Administrative Class shares.

± JPMorgan GBI Global ex-US Index Hedged in USD is an unmanaged market index representative of the total return performance in U.S. dollars of major non-U.S. bond markets. It is not possible to invest directly in an unmanaged index.

Expense Example	Actual	Hypothetical (5% return before expenses)
Beginning Account Value (01/01/15)	$1,000.00	$1,000.00
Ending Account Value (06/30/15)	$ 983.10	$1,020.22
Expenses Paid During Period†	$ 4.40	$ 4.48
Net Annualized Expense Ratio	0.90%	0.90%

† 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 the number of days in the period/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.

Investment Objective and Strategy Overview

» 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.

Portfolio Insights

» Exposure to core European duration (or sensitivity to changes in market interest rates) detracted from performance as German bund yields increased over the reporting period.

» An underweight to Canadian duration detracted from relative performance as Canadian interest rates declined during the reporting period.

» Negative carry (or the rate of interest earned by holding the respective securities) from a short position to U.S. duration detracted from relative performance over the reporting period.

» An overweight to duration in Italy and Spain detracted from relative performance as European sovereign debt peripheral spreads widened over the reporting period.

» Exposure to Brazilian local bonds during the last two months of the reporting period detracted from relative performance as Brazilian yields increased during this time period.

» Short positioning in the euro contributed to relative performance as this currency depreciated relative to the U.S. dollar over the reporting period.

» Exposure to U.S. Treasury Inflation-Protected Securities ("TIPS") contributed to relative performance as breakeven inflation rates increased over the reporting period.

» Positions in non-agency mortgage-backed securities contributed to relative performance as prices for the securities generally increased over the reporting period.

Financial Highlights PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

Selected Per Share Data for the Year or Period Ended:	06/30/2015+	12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010
Administrative Class						
Net asset value beginning of year or period	$ 10.90	$ 10.05	$ 10.80	$ 10.33	$ 9.98	$ 9.64
Net investment income [(a)]	0.04	0.18	0.22	0.26	0.23	0.21
Net realized/unrealized gain (loss)	(0.22)	0.93	(0.17)	0.84	0.43	0.60
Total from Investment Operations	(0.18)	1.11	0.05	1.10	0.66	0.81
Dividends from net investment income	(0.05)	(0.19)	(0.20)	(0.24)	(0.21)	(0.19)
Distributions from net realized capital gains	0.00	(0.07)	(0.60)	(0.39)	(0.10)	(0.28)
Total distributions	(0.05)	(0.26)	(0.80)	(0.63)	(0.31)	(0.47)
Net asset value end of year or period	$ 10.67	$ 10.90	$ 10.05	$ 10.80	$ 10.33	$ 9.98
Total return	(1.69)%	11.16%	0.50%	10.85%	6.76%	8.49%
Net assets end of year or period (000s)	$ 76,361	$ 89,343	$ 66,176	$ 78,497	$ 78,493	$ 79,591
Ratio of expenses to average net assets	0.90%*	0.91%	0.92%	0.94%	0.91%	0.90%
Ratio of expenses to average net assets excluding interest expense	0.90%*	0.90%	0.90%	0.90%	0.90%	0.90%
Ratio of net investment income to average net assets	0.75%*	1.73%	2.03%	2.40%	2.30%	2.06%
Portfolio turnover rate	137%	176%	127%	356%	218%	130%

+ Unaudited
* Annualized
(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, 2015
Assets:	
Investments, at value	
Investments in securities*	$ 173,729
Investments in Affiliates	59,144
Financial Derivative Instruments	
Exchange-traded or centrally cleared	869
Over the counter	2,377
Deposits with counterparty	5,565
Foreign currency, at value	1,228
Receivable for Investments sold~	61,311
Receivable for Portfolio shares sold	918
Interest and dividends receivable	1,573
Dividends receivable from Affiliates	21
Total Assets	306,735
Liabilities:	
Borrowings & Other Financing Transactions	
Payable for short sales	$ 14,935
Financial Derivative Instruments	
Exchange-traded or centrally cleared	387
Over the counter	3,692
Payable for investments purchased~	47,257
Payable for investments in Affiliates purchased	21
Payable for investments purchased on a delayed-delivery basis	3,306
Deposits from counterparty	960
Payable for Portfolio shares redeemed	26
Accrued investment advisory fees	47
Accrued supervisory and administrative fees	93
Accrued distribution fees	31
Accrued servicing fees	9
Other liabilities	1
Total Liabilities	70,765
Net Assets	$ 235,970
Net Assets Consist of:	
Paid in capital	$ 234,322
Undistributed net investment income	3,805
Accumulated undistributed net realized gain	7,124
Net unrealized (depreciation)	(9,281)
	$ 235,970
Net Assets:	
Institutional Class	$ 2,072
Administrative Class	76,361
Advisor Class	157,537
Shares Issued and Outstanding:	
Institutional Class	194
Administrative Class	7,158
Advisor Class	14,768
Net Asset Value and Redemption Price Per Share Outstanding:	
Institutional Class	$ 10.67
Administrative Class	10.67
Advisor Class	10.67
Cost of Investments in securities	$ 181,425
Cost of Investments in Affiliates	$ 59,143
Cost of Foreign Currency Held	$ 1,226
Proceeds Received on Short Sales	$ 14,935
Cost or Premiums of Financial Derivative Instruments, net	$ (9)
* Includes repurchase agreements of:	$ 1,782

~ A portion of the balance may represent to-be-announced (TBA) securities. See Note 4 in the Notes to Financial Statements.

Statement of Operations PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Unaudited)

(Amounts in thousands)	Six Months Ended June 30, 2015
Investment Income:	
Interest	$ 1,600
Dividends	1
Dividends from Investments in Affiliates	87
Total Income	1,688
Expenses:	
Investment advisory fees	249
Supervisory and administrative fees	497
Servicing fees - Administrative Class	62
Distribution and/or servicing fees - Advisor Class	143
Trustee fees	1
Interest expense	2
Total Expenses	954
Net Investment Income	734
Net Realized Gain (Loss):	
Investments in securities	(4,443)
Investments in Affiliates	(190)
Exchange-traded or centrally cleared financial derivative instruments	(363)
Over the counter financial derivative instruments	9,499
Foreign currency	1,694
Net Realized Gain	6,197
Net Change in Unrealized Appreciation (Depreciation):	
Investments in securities	(6,258)
Investments in Affiliates	212
Exchange-traded or centrally cleared financial derivative instruments	(1,354)
Over the counter financial derivative instruments	(3,961)
Foreign currency assets and liabilities	(668)
Net Change in Unrealized (Depreciation)	(12,029)
Net (Decrease) in Net Assets Resulting from Operations	$ (5,098)

Statements of Changes in Net Assets PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Amounts in thousands†)	Six Months Ended June 30, 2015 (Unaudited)	Year Ended December 31, 2014
Increase in Net Assets from:		
Operations:		
Net investment income	$ 734	$ 1,659
Net realized gain	6,197	5,766
Net change in unrealized appreciation (depreciation)	(12,029)	2,784
Net Increase (Decrease) in Net Assets Resulting from Operations	(5,098)	10,209
Distributions to Shareholders:		
From net investment income		
Institutional Class	(8)	(5)
Administrative Class	(356)	(1,426)
Advisor Class	(465)	(294)
From net realized capital gains		
Institutional Class	0	(5)
Administrative Class	0	(540)
Advisor Class	0	(371)
Total Distributions	(829)	(2,641)
Portfolio Share Transactions:		
Net increase resulting from Portfolio share transactions**	81,959	86,172
Total Increase in Net Assets	76,032	93,740
Net Assets:		
Beginning of period	159,938	66,198
End of period*	$ 235,970	$ 159,938
* Including undistributed net investment income of:	$ 3,805	$ 3,900

† A zero balance may reflect actual amounts rounding to less than one thousand.
**See Note 12 in the Notes to Financial Statements.

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
INVESTMENTS IN SECURITIES 73.6%		
AUSTRALIA 0.5%		
CORPORATE BONDS & NOTES 0.3%		
Australia & New Zealand Banking Group Ltd.		
1.000% due 10/06/2015	$ 700	$ 701
MORTGAGE-BACKED SECURITIES 0.0%		
Torrens Trust		
2.460% due 10/19/2038	AUD 44	34
SOVEREIGN ISSUES 0.2%		
New South Wales Treasury Corp.		
2.750% due 11/20/2025	123	111
Queensland Treasury Corp.		
4.250% due 07/21/2023	600	492
		603
Total Australia (Cost $1,443)		**1,338**
BRAZIL 0.2%		
CORPORATE BONDS & NOTES 0.2%		
Petrobras Global Finance BV		
3.163% due 03/17/2020	$ 200	191
3.250% due 03/17/2017	300	296
Total Brazil (Cost $500)		**487**
CANADA 0.7%		
CORPORATE BONDS & NOTES 0.2%		
Toronto-Dominion Bank		
0.723% due 07/02/2019	$ 500	500
SOVEREIGN ISSUES 0.5%		
Province of British Columbia		
4.300% due 06/18/2042	CAD 100	98
Province of Ontario		
1.900% due 09/08/2017	500	410
3.450% due 06/02/2045	100	84
3.500% due 06/02/2024	600	525
6.200% due 06/02/2031	100	113
		1,230
Total Canada (Cost $1,875)		**1,730**
CAYMAN ISLANDS 0.4%		
ASSET-BACKED SECURITIES 0.4%		
Atrium CDO Corp.		
1.376% due 11/16/2022	$ 279	280
Gallatin CLO Ltd.		
1.545% due 07/15/2023	200	200
Symphony CLO LP		
1.374% due 01/09/2023	495	493
Total Cayman Islands (Cost $974)		**973**
CHINA 0.1%		
CORPORATE BONDS & NOTES 0.1%		
CNOOC Curtis Funding Pty. Ltd.		
4.500% due 10/03/2023	$ 200	210
Total China (Cost $203)		**210**

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
DENMARK 4.1%		
CORPORATE BONDS & NOTES 4.1%		
Nykredit Realkredit A/S		
1.000% due 07/01/2016	DKK 21,900	$ 3,310
2.000% due 10/01/2015	26,000	3,913
2.000% due 01/01/2016	2,400	363
2.000% due 04/01/2016	2,600	395
Realkredit Danmark A/S		
2.000% due 01/01/2016	11,600	1,753
Total Denmark (Cost $9,853)		**9,734**
FRANCE 5.7%		
CORPORATE BONDS & NOTES 1.1%		
Banque PSA Finance S.A.		
4.250% due 02/25/2016	EUR 1,200	1,369
BPCE S.A.		
4.500% due 03/15/2025	$ 500	484
Credit Agricole S.A.		
0.833% due 06/12/2017	400	400
Dexia Credit Local S.A.		
1.875% due 01/29/2020	250	247
		2,500
MORTGAGE-BACKED SECURITIES 0.4%		
Infiniti SoPRANo		
0.175% due 11/05/2019	EUR 945	958
SOVEREIGN ISSUES 4.2%		
Caisse d'Amortissement de la Dette Sociale		
3.375% due 03/20/2024	$ 400	423
France Government Bond		
0.250% due 07/25/2024	EUR 1,018	1,205
1.000% due 11/25/2018	900	1,037
1.750% due 11/25/2024	2,100	2,477
2.500% due 05/25/2030	600	740
3.250% due 05/25/2045	2,000	2,746
4.000% due 10/25/2038	200	305
4.500% due 04/25/2041	600	993
		9,926
Total France (Cost $14,479)		**13,384**
GERMANY 1.1%		
CORPORATE BONDS & NOTES 0.6%		
FMS Wertmanagement AoeR		
0.750% due 12/15/2017	GBP 200	312
Landwirtschaftliche Rentenbank		
4.250% due 01/24/2023	AUD 400	325
4.750% due 03/12/2019	NZD 1,200	849
		1,486
SOVEREIGN ISSUES 0.5%		
Republic of Germany		
0.100% due 04/15/2023 (b)	EUR 104	123
4.000% due 01/04/2037	100	163
4.250% due 07/04/2039	500	864
		1,150
Total Germany (Cost $3,036)		**2,636**
GREECE 0.5%		
CORPORATE BONDS & NOTES 0.3%		
National Bank of Greece S.A.		
3.875% due 10/07/2016	EUR 700	638

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
SOVEREIGN ISSUES 0.2%		
Republic of Greece Government International Bond		
3.800% due 08/08/2017	JPY 80,000	$ 366
5.000% due 08/22/2016	25,000	119
		485
Total Greece (Cost $1,534)		**1,123**
HONG KONG 0.1%		
CORPORATE BONDS & NOTES 0.1%		
CNOOC Finance Ltd.		
3.875% due 05/02/2022	$ 200	203
Total Hong Kong (Cost $197)		**203**
IRELAND 1.1%		
ASSET-BACKED SECURITIES 0.0%		
Race Point CLO Ltd.		
0.535% due 04/15/2020	$ 42	42
CORPORATE BONDS & NOTES 0.8%		
Depfa ACS Bank		
3.875% due 11/14/2016	EUR 1,000	1,171
4.875% due 10/28/2015	$ 600	608
5.125% due 03/16/2037	200	238
		2,017
MORTGAGE-BACKED SECURITIES 0.3%		
DECO Series		
1.198% due 04/27/2027	EUR 498	558
German Residential Funding Ltd.		
1.138% due 08/27/2024	188	211
		769
Total Ireland (Cost $3,091)		**2,828**
ITALY 16.3%		
ASSET-BACKED SECURITIES 0.0%		
Alba SPV SRL		
1.502% due 04/20/2040	EUR 78	87
CORPORATE BONDS & NOTES 1.4%		
Banca Carige SpA		
3.875% due 10/24/2018	600	736
Banca Monte dei Paschi di Siena SpA		
5.000% due 02/09/2019	100	123
Banco Popolare SC		
2.375% due 01/22/2018	500	558
3.250% due 09/30/2016	300	337
3.500% due 03/14/2019	300	344
Intesa Sanpaolo SpA		
3.625% due 08/12/2015	$ 1,100	1,103
UniCredit SpA		
6.750% due 09/10/2021 (c)	EUR 200	216
		3,417
MORTGAGE-BACKED SECURITIES 0.8%		
Berica Residential MBS SRL		
0.288% due 03/31/2048	121	133
Casa D'este Finance SRL		
0.336% due 09/15/2021	166	182
Claris ABS		
0.412% due 10/31/2060	418	459

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Creso SRL			
0.685% due 12/30/2060	EUR	794	$ 889
Giovecca Mortgages SRL			
0.599% due 04/23/2048		117	131
			1,794
SOVEREIGN ISSUES 14.1%			
Italy Buoni Poliennali Del Tesoro			
2.500% due 12/01/2024		1,700	1,933
3.250% due 09/01/2046		600	671
3.750% due 09/01/2024		3,600	4,499
4.000% due 02/01/2037		2,700	3,379
4.500% due 03/01/2024		4,700	6,183
4.750% due 08/01/2023		3,500	4,680
4.750% due 09/01/2028		500	681
5.000% due 03/01/2025		5,200	7,112
5.000% due 09/01/2040		1,100	1,576
5.500% due 09/01/2022		700	968
5.500% due 11/01/2022		500	690
Italy Government International Bond			
6.000% due 08/04/2028	GBP	500	940
			33,312
Total Italy (Cost $41,613)			**38,610**
JAPAN 0.1%			
CORPORATE BONDS & NOTES 0.1%			
Bank of Tokyo-Mitsubishi UFJ Ltd.			
1.700% due 03/05/2018	$	200	200
Total Japan (Cost $200)			**200**
LUXEMBOURG 0.6%			
CORPORATE BONDS & NOTES 0.6%			
Erste Europaische Pfandbrief und Kommunalkreditbank AG S.A.			
4.250% due 06/04/2018	EUR	650	798
Wind Acquisition Finance S.A.			
7.000% due 04/23/2021		600	692
Total Luxembourg (Cost $1,453)			**1,490**
MEXICO 0.3%			
SOVEREIGN ISSUES 0.3%			
Mexico Government International Bond			
4.750% due 06/14/2018	MXN	12,100	774
Total Mexico (Cost $908)			**774**
NETHERLANDS 1.1%			
ASSET-BACKED SECURITIES 0.5%			
Cadogan Square CLO BV			
0.391% due 01/17/2023	EUR	126	139
Chapel BV			
0.364% due 07/17/2066		256	272
Highlander Euro CDO BV			
0.224% due 05/01/2023		250	275
Jubilee CDO BV			
0.396% due 09/20/2022		200	221
Panther CDO BV			
0.364% due 10/15/2084		172	183
			1,090
CORPORATE BONDS & NOTES 0.6%			
Fiat Chrysler Automobiles NV			
4.500% due 04/15/2020	$	400	399

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Rabobank Group			
8.375% due 07/26/2016 (c)	$	600	$ 628
8.400% due 06/29/2017 (c)		300	325
			1,352
Total Netherlands (Cost $2,513)			**2,442**
NORWAY 0.3%			
SOVEREIGN ISSUES 0.3%			
Kommunalbanken A/S			
0.662% due 03/27/2017	$	400	403
Norway Government Bond			
3.750% due 05/25/2021	NOK	1,800	260
Total Norway (Cost $673)			**663**
PORTUGAL 0.4%			
CORPORATE BONDS & NOTES 0.4%			
Novo Banco S.A.			
4.000% due 01/21/2019	EUR	300	334
4.750% due 01/15/2018		200	227
5.000% due 05/14/2019		100	113
5.000% due 05/21/2019		200	228
Total Portugal (Cost $936)			**902**
SLOVENIA 2.8%			
CORPORATE BONDS & NOTES 0.2%			
Nova Ljubljanska Banka d.d.			
2.875% due 07/03/2017	EUR	500	567
SOVEREIGN ISSUES 2.6%			
Slovenia Government International Bond			
2.250% due 03/25/2022		500	574
4.125% due 02/18/2019	$	1,200	1,251
4.375% due 01/18/2021	EUR	300	386
4.700% due 11/01/2016		800	944
4.750% due 05/10/2018	$	1,400	1,491
5.250% due 02/18/2024		1,000	1,095
5.850% due 05/10/2023		300	341
			6,082
Total Slovenia (Cost $6,725)			**6,649**
SPAIN 5.1%			
CORPORATE BONDS & NOTES 0.7%			
Ayt Cedulas Cajas Global			
0.093% due 02/22/2018	EUR	200	221
Banco Bilbao Vizcaya Argentaria S.A.			
9.000% due 05/09/2018 (c)	$	600	647
Banco Popular Espanol S.A.			
3.500% due 09/11/2017	EUR	100	119
Banco Santander S.A.			
6.250% due 09/11/2021 (c)		500	543
BPE Financiaciones S.A.			
2.875% due 05/19/2016		100	113
			1,643
SOVEREIGN ISSUES 4.4%			
Autonomous Community of Catalonia			
4.300% due 11/15/2016		400	464
4.950% due 02/11/2020		100	123
Autonomous Community of Valencia			
4.375% due 07/16/2015		100	112
Spain Government International Bond			
2.750% due 10/31/2024		5,000	5,799

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
3.300% due 07/30/2016	EUR	900	$ 1,038
3.800% due 04/30/2024		700	881
5.150% due 10/31/2028		200	282
5.150% due 10/31/2044		1,200	1,790
			10,489
Total Spain (Cost $13,674)			**12,132**
SUPRANATIONAL 0.2%			
CORPORATE BONDS & NOTES 0.2%			
European Investment Bank			
0.500% due 06/21/2023	AUD	500	298
0.500% due 08/10/2023		400	237
Total Supranational (Cost $591)			**535**
SWEDEN 0.4%			
CORPORATE BONDS & NOTES 0.3%			
Skandinaviska Enskilda Banken AB			
3.000% due 06/20/2018	SEK	1,500	196
Swedbank AB			
2.200% due 03/04/2020	$	300	298
Swedbank Hypotek AB			
3.750% due 12/20/2017	SEK	1,100	144
			638
SOVEREIGN ISSUES 0.1%			
Sweden Government International Bond			
4.250% due 03/12/2019		1,200	167
Total Sweden (Cost $908)			**805**
SWITZERLAND 1.1%			
CORPORATE BONDS & NOTES 1.1%			
UBS AG			
4.750% due 05/22/2023	$	800	809
7.250% due 02/22/2022		1,100	1,160
7.625% due 08/17/2022		500	586
Total Switzerland (Cost $2,596)			**2,555**
UNITED KINGDOM 10.1%			
ASSET-BACKED SECURITIES 0.1%			
Motor PLC			
0.667% due 08/25/2021	$	210	211
CORPORATE BONDS & NOTES 2.2%			
Barclays Bank PLC			
7.625% due 11/21/2022		1,100	1,255
Barclays PLC			
3.650% due 03/16/2025		600	569
HBOS PLC			
0.982% due 09/30/2016		1,200	1,200
6.750% due 05/21/2018		1,100	1,222
Royal Bank of Scotland PLC			
9.500% due 03/16/2022		300	331
Tesco PLC			
6.125% due 02/24/2022	GBP	300	511
			5,088
MORTGAGE-BACKED SECURITIES 2.4%			
Business Mortgage Finance PLC			
0.947% due 02/15/2039		953	1,478
2.567% due 02/15/2041		473	728

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Eurohome UK Mortgages PLC			
0.721% due 06/15/2044	GBP	148	$ 218
Eurosail PLC			
0.729% due 06/10/2044		49	75
0.871% due 06/13/2045		294	457
Fosse Master Issuer PLC			
2.669% due 10/18/2054		200	315
Granite Master Issuer PLC			
0.527% due 12/20/2054	$	100	99
Mansard Mortgages PLC			
1.221% due 12/15/2049	GBP	272	416
Newgate Funding PLC			
0.728% due 12/01/2050		300	413
1.571% due 12/15/2050		370	547
RMAC Securities PLC			
0.721% due 06/12/2044		638	919
			5,665

SOVEREIGN ISSUES 5.4%

United Kingdom Gilt			
2.250% due 09/07/2023		500	804
3.250% due 01/22/2044		4,700	8,155
3.500% due 01/22/2045		500	909
4.250% due 06/07/2032		400	778
4.250% due 03/07/2036		100	198
4.250% due 12/07/2040		600	1,213
4.500% due 09/07/2034		300	607
			12,664
Total United Kingdom (Cost $23,432)			**23,628**

UNITED STATES 17.8%

ASSET-BACKED SECURITIES 3.8%

Amortizing Residential Collateral Trust			
0.767% due 07/25/2032	$	1	1
0.887% due 10/25/2031		2	1
Amresco Residential Securities Corp. Mortgage Loan Trust			
1.127% due 06/25/2029		1	1
Argent Securities, Inc. Asset-Backed Pass-Through Certificates			
0.567% due 02/25/2036		833	566
Citigroup Mortgage Loan Trust, Inc.			
0.347% due 12/25/2036		843	557
0.447% due 03/25/2036		800	608
Countrywide Asset-Backed Certificates			
0.327% due 05/25/2047		670	533
0.327% due 06/25/2047		690	549
0.477% due 07/25/2036		700	620
Credit Suisse First Boston Mortgage Securities Corp.			
0.805% due 01/25/2032		1	1
First Alliance Mortgage Loan Trust			
0.647% due 12/20/2027		1	1
IndyMac Home Equity Mortgage Loan Asset-Backed Trust			
0.427% due 04/25/2047		800	504
0.637% due 08/25/2035		119	118
Long Beach Mortgage Loan Trust			
0.747% due 10/25/2034		12	12
Morgan Stanley Mortgage Loan Trust			
5.919% due 09/25/2046 ^		208	125
Nomura Home Equity Loan, Inc. Home Equity Loan Trust			
0.477% due 03/25/2036		700	541
Renaissance Home Equity Loan Trust			
2.737% due 12/25/2032		556	527
5.675% due 06/25/2037		1,079	571
Residential Asset Mortgage Products Trust			
0.405% due 12/25/2035		$ 668	$ 522
Residential Asset Securities Corp. Trust			
0.687% due 07/25/2032 ^		2	2
Saxon Asset Securities Trust			
1.937% due 12/25/2037		548	443
1.987% due 05/25/2031		647	560
SLM Student Loan Trust			
0.777% due 10/25/2017		59	59
1.777% due 04/25/2023		420	432
Structured Asset Investment Loan Trust			
0.317% due 07/25/2036		733	532
Wells Fargo Home Equity Asset-Backed Securities Trust			
0.417% due 01/25/2037		800	565
			8,951

CORPORATE BONDS & NOTES 3.1%

Ally Financial, Inc.			
2.750% due 01/30/2017		800	798
2.955% due 07/18/2016		100	101
3.600% due 05/21/2018		400	401
BA Covered Bond Issuer			
4.250% due 08/03/2017	EUR	200	239
Bank of America Corp.			
6.100% due 03/17/2025 (c)	$	400	396
BellSouth Corp.			
4.821% due 04/26/2021		600	617
Citigroup, Inc.			
5.950% due 05/15/2025 (c)		500	483
Goldman Sachs Group, Inc.			
1.437% due 04/23/2020		400	404
International Lease Finance Corp.			
6.750% due 09/01/2016		200	211
Lehman Brothers Holdings, Inc.			
6.875% due 05/02/2018 ^		200	23
Metropolitan Life Global Funding			
2.000% due 04/14/2020		300	296
SABMiller Holdings, Inc.			
4.950% due 01/15/2042		800	814
SLM Student Loan Trust			
1.119% due 03/15/2038	GBP	700	1,010
Sprint Communications, Inc.			
8.375% due 08/15/2017	$	400	434
Universal Health Services, Inc.			
7.125% due 06/30/2016		1,000	1,059
			7,286

MORTGAGE-BACKED SECURITIES 2.9%

American Home Mortgage Investment Trust			
1.923% due 09/25/2045		67	64
Banc of America Alternative Loan Trust			
6.500% due 04/25/2036 ^		896	770
Banc of America Mortgage Trust			
2.639% due 02/25/2036 ^		55	50
Bear Stearns Adjustable Rate Mortgage Trust			
2.515% due 03/25/2035		5	5
2.564% due 08/25/2033		4	4
2.680% due 03/25/2035		56	56
Bear Stearns ALT-A Trust			
0.347% due 02/25/2034		73	67
2.635% due 09/25/2035		55	47
2.646% due 03/25/2036 ^		100	78
2.689% due 11/25/2035 ^		48	36
2.810% due 08/25/2036 ^		62	47
Bear Stearns Structured Products, Inc. Trust			
2.331% due 12/26/2046		46	36
Citigroup Commercial Mortgage Trust			
0.936% due 06/15/2033	$	400	$ 398
Citigroup Mortgage Loan Trust, Inc.			
2.230% due 09/25/2035		10	10
2.410% due 09/25/2035		18	18
Citigroup Mortgage Loan Trust, Inc. Mortgage Pass-Through Certificates			
2.279% due 09/25/2035 ^		627	543
Countrywide Alternative Loan Trust			
0.397% due 03/20/2046		107	85
0.467% due 02/25/2037		89	71
1.158% due 12/25/2035		121	100
1.658% due 11/25/2035		21	18
5.250% due 06/25/2035 ^		16	15
Countrywide Home Loan Mortgage Pass-Through Trust			
0.417% due 05/25/2035		43	36
0.507% due 03/25/2035		90	72
0.517% due 02/25/2035		11	10
2.429% due 11/25/2034		13	13
2.680% due 08/25/2034		37	33
5.500% due 01/25/2035		622	635
Credit Suisse First Boston Mortgage Securities Corp.			
6.500% due 04/25/2033		1	1
Credit Suisse Mortgage Capital Mortgage-Backed Trust			
5.863% due 02/25/2037 ^		224	124
DBUBS Mortgage Trust			
0.322% due 11/10/2046 (a)		400	6
1.531% due 11/10/2046 (a)		891	17
GSR Mortgage Loan Trust			
0.517% due 12/25/2034		101	91
2.672% due 04/25/2035		491	492
2.701% due 01/25/2036 ^		110	102
HarborView Mortgage Loan Trust			
2.527% due 05/19/2033		6	6
IndyMac Mortgage Loan Trust			
0.427% due 07/25/2035		36	32
JPMorgan Mortgage Trust			
2.186% due 07/27/2037		156	136
2.608% due 02/25/2036 ^		64	56
Mellon Residential Funding Corp. Mortgage Pass-Through Trust			
0.626% due 12/15/2030		9	9
Merrill Lynch Mortgage Investors Trust			
1.673% due 10/25/2035		16	16
Morgan Stanley Bank of America Merrill Lynch Trust			
1.602% due 12/15/2048 (a)		1,255	71
Morgan Stanley Capital Trust			
0.336% due 07/12/2044		162	162
Morgan Stanley Mortgage Loan Trust			
2.128% due 06/25/2036		72	70
Residential Accredit Loans, Inc. Trust			
0.337% due 02/25/2047		45	26
0.367% due 06/25/2046		370	165
0.397% due 04/25/2046		633	333
Structured Adjustable Rate Mortgage Loan Trust			
2.480% due 04/25/2034		10	10
Structured Asset Mortgage Investments Trust			
0.397% due 05/25/2046		17	14
0.407% due 05/25/2036		133	97
0.407% due 09/25/2047		190	153
0.417% due 05/25/2045		31	28
0.768% due 07/19/2034		4	4
0.848% due 09/19/2032		3	3
0.888% due 03/19/2034		7	7
1.658% due 08/25/2047 ^		54	46

See Accompanying Notes

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
TBW Mortgage-Backed Trust		
5.970% due 09/25/2036	$ 189	$ 35
Thornburg Mortgage Securities Trust		
1.434% due 06/25/2047 ^	40	36
1.437% due 06/25/2047 ^	25	22
5.750% due 06/25/2047	19	19
Wachovia Mortgage Loan Trust LLC		
2.515% due 10/20/2035 ^	236	215
WaMu Mortgage Pass-Through Certificates Trust		
0.497% due 01/25/2045	166	158
1.138% due 06/25/2046	61	57
1.158% due 02/25/2046	141	131
1.930% due 02/27/2034	7	7
2.154% due 03/25/2033	16	16
2.440% due 03/25/2035	99	99
2.458% due 04/25/2035	93	91
Washington Mutual Mortgage Pass-Through Certificates Trust		
1.098% due 07/25/2046 ^	36	22
Wells Fargo Mortgage-Backed Securities Trust		
2.581% due 03/25/2036 ^	123	119
2.617% due 03/25/2035	134	135
2.618% due 06/25/2035	39	39
2.637% due 04/25/2036	12	12
2.721% due 07/25/2036 ^	90	88
		6,895
MUNICIPAL BONDS & NOTES 0.1%		
Pasadena Public Financing Authority, California Revenue Bonds, (BABs), Series 2010		
7.148% due 03/01/2043	100	130
	SHARES	
PREFERRED SECURITIES 0.0%		
Navient Corp. CPI Linked Security		
1.976% due 01/16/2018	900	22
	PRINCIPAL AMOUNT (000S)	
U.S. GOVERNMENT AGENCIES 1.5%		
Fannie Mae		
0.307% due 03/25/2034	$ 9	9
0.337% due 08/25/2034	6	6
0.537% due 09/25/2042	24	24
0.617% due 11/25/2040	123	124
0.637% due 11/25/2040	$ 183	$ 184
0.767% due 06/25/2041	364	369
1.328% due 10/01/2044	23	24
2.004% due 12/01/2034	8	8
2.202% due 05/25/2035	21	22
2.488% due 11/01/2034	56	60
3.500% due 11/01/2021	94	100
5.480% due 07/01/2018	200	212
6.000% due 07/25/2044	15	17
Freddie Mac		
0.686% due 12/15/2032	12	12
0.786% due 12/15/2037	36	36
1.346% due 10/25/2044	66	67
2.250% due 03/01/2035	6	6
2.350% due 04/01/2035	120	127
2.399% due 02/01/2029	5	5
Ginnie Mae		
1.625% due 04/20/2028 - 06/20/2030	2	3
2.000% due 04/20/2030 - 05/20/2030	2	2
NCUA Guaranteed Notes		
0.655% due 11/05/2020	1,277	1,283
0.744% due 12/08/2020	64	65
0.745% due 12/08/2020	261	263
Tennessee Valley Authority		
6.250% due 12/15/2017	400	451
		3,479
U.S. TREASURY OBLIGATIONS 6.4%		
U.S. Treasury Bonds		
3.125% due 02/15/2042 (g)	100	100
5.250% due 02/15/2029 (g)	100	130
U.S. Treasury Inflation Protected Securities (b)		
0.125% due 01/15/2022 (g)	418	414
0.125% due 07/15/2022 (g)	1,955	1,939
0.125% due 01/15/2023 (g)	2,357	2,315
0.125% due 07/15/2024 (g)	697	680
0.250% due 01/15/2025	9,489	9,296
2.375% due 01/15/2025 (g)	126	147
U.S. Treasury Notes		
1.750% due 05/15/2023 (g)	100	97
2.500% due 05/15/2024 (g)	100	101
		15,219
Total United States (Cost $42,258)		**41,982**
SHORT-TERM INSTRUMENTS 2.5%		
CERTIFICATES OF DEPOSIT 0.3%		
Credit Suisse		
0.631% due 01/28/2016	$ 400	$ 400
Intesa Sanpaolo SpA		
1.656% due 04/11/2016	300	301
		701
COMMERCIAL PAPER 1.4%		
Opusalpha Funding Ltd.		
0.051% due 09/23/2015	EUR 2,000	2,229
Weinberg Capital Ltd.		
0.061% due 07/13/2015	900	1,004
		3,233
REPURCHASE AGREEMENTS (d) 0.8%		
		1,782
Total Short-Term Instruments (Cost $5,760)		**5,716**
Total Investments in Securities (Cost $181,425)		**173,729**
	SHARES	
INVESTMENTS IN AFFILIATES 25.1%		
SHORT-TERM INSTRUMENTS 25.1%		
CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES 25.1%		
PIMCO Short-Term Floating NAV Portfolio III	5,963,262	59,144
Total Short-Term Instruments (Cost $59,143)		**59,144**
Total Investments in Affiliates (Cost $59,143)		**59,144**
Total Investments 98.7% (Cost $240,568)		**$ 232,873**
Financial Derivative Instruments (e)(f) (0.4%) (Cost or Premiums, net $(9))		**(833)**
Other Assets and Liabilities, net 1.7%		**3,930**
Net Assets 100.0%		**$ 235,970**

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) Principal amount of security is adjusted for inflation.

(c) Perpetual maturity; date shown, if applicable, represents next contractual call date.

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)]
SSB	0.000%	06/30/2015	07/01/2015	$ 1,782	Fannie Mae 2.200% due 10/17/2022	$ (1,819)	$ 1,782	$ 1,782
Total Repurchase Agreements						**$ (1,819)**	**$ 1,782**	**$ 1,782**

[(1)] Includes accrued interest.

SHORT SALES*:

Description	Coupon	Maturity Date	Principal Amount	Proceeds	Payable for Short Sales
Fannie Mae	3.000%	07/01/2045	$ 2,000	$ (1,985)	$ (1,988)
Fannie Mae	4.500%	08/13/2045	12,000	(12,950)	(12,947)
Total Short Sales				**$ (14,935)**	**$ (14,935)**

* Short Sales shown are To-Be-Announced ("TBA") securities which are not subject to collateral pledging under the terms of any master agreements.

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, 2015:

Counterparty	Repurchase Agreement Proceeds to be Received	Payable for Reverse Repurchase Agreements	Payable for Sale-Buyback Transactions	Total Borrowings and Other Financing Transactions	Collateral (Received)	Net Exposure (2)
Global/Master Repurchase Agreement						
SSB	$ 1,782	$ 0	$ 0	$ 1,782	$ (1,819)	$ (37)
Total Borrowings and Other Financing Transactions	**$ 1,782**	**$ 0**	**$ 0**			

(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.

(e) 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	Short	12/2016	41	$ (14)	$ 1	$ 0
90-Day Eurodollar June Futures	Short	06/2016	23	(7)	0	0
90-Day Eurodollar March Futures	Short	03/2017	30	(9)	1	0
90-Day Eurodollar September Futures	Short	09/2016	49	(18)	1	0
Australia Government 3-Year Note September Futures	Long	09/2015	20	1	4	(2)
Australia Government 10-Year Bond September Futures	Long	09/2015	33	16	26	(14)
Call Options Strike @ EUR 154.500 on Euro-Bund 10-Year Bond September Futures	Long	08/2015	21	(2)	11	0
Call Options Strike @ EUR 157.500 on Euro-Bund 10-Year Bond September Futures	Short	08/2015	21	1	0	(4)
Euro-Bobl September Futures	Long	09/2015	27	(1)	17	0
Euro-BTP Italy Government Bond September Futures	Long	09/2015	3	2	3	0
Euro-Bund 10-Year Bond September Futures	Long	09/2015	112	(305)	189	0
Euro-Buxl 30-Year Bond September Futures	Long	09/2015	15	(203)	59	0
Euro-OAT France Government 10-Year Bond September Futures	Long	09/2015	10	(45)	13	0
Euro-Schatz September Futures	Long	09/2015	84	(3)	7	0
Japan Government 10-Year Bond September Futures	Long	09/2015	11	15	41	(18)
Put Options Strike @ EUR 124.500 on Euro-Bobl 10-Year Bond August Futures	Long	07/2015	27	0	0	0
Put Options Strike @ EUR 147.000 on Euro-Bund 10-Year Bond September Futures	Short	08/2015	21	6	7	0
Put Options Strike @ EUR 148.000 on Euro-Bund 10-Year Bond August Futures	Short	07/2015	9	1	3	0
U.S. Treasury 5-Year Note September Futures	Short	09/2015	5	1	0	0
U.S. Treasury 10-Year Note September Futures	Long	09/2015	108	138	0	(3)
U.S. Treasury 30-Year Bond September Futures	Long	09/2015	1	(4)	0	0
U.S. Treasury Ultra Long-Term Bond September Futures	Short	09/2015	2	4	0	0
United Kingdom Long Gilt September Futures	Long	09/2015	125	(132)	236	0
Total Futures Contracts				**$ (558)**	**$ 619**	**$ (41)**

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CREDIT INDICES - BUY PROTECTION (1)

Index/Tranches	Fixed Deal (Pay) Rate	Maturity Date	Notional Amount (3)	Market Value (4)	Unrealized Appreciation	Variation Margin Asset	Variation Margin Liability
iTraxx Europe Senior 23 5-Year Index	(1.000%)	06/20/2020	EUR 2,300	$ (14)	$ 16	$ 16	$ 0

CREDIT DEFAULT SWAPS ON CREDIT INDICES - SELL PROTECTION [(2)]

Index/Tranches	Fixed Deal Receive Rate	Maturity Date	Notional Amount [(3)]	Market Value [(4)]	Unrealized (Depreciation)	Variation Margin Asset	Variation Margin Liability
CDX.HY-24 5-Year Index	5.000%	06/20/2020	$ 3,168	$ 202	$ (22)	$ 16	$ 0
iTraxx Europe Senior 22 5-Year Index	1.000%	12/20/2019	EUR 6,600	58	(26)	0	(40)
				$ 260	$ (48)	$ 16	$ (40)

(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) 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

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 SEK-LIBOR	1.013%	01/23/2025	SEK 600	$ (3)	$ (3)	$ 0	$ 0
Pay	3-Month SEK-LIBOR	1.023%	01/23/2025	500	(3)	(3)	0	0
Pay	3-Month SEK-LIBOR	1.033%	01/23/2025	500	(3)	(3)	0	0
Pay	3-Month SEK-LIBOR	1.036%	01/23/2025	600	(3)	(3)	0	0
Receive	3-Month USD-LIBOR	1.250%	12/16/2016	$ 2,400	(10)	(1)	0	0
Receive	3-Month USD-LIBOR	1.300%	05/06/2017	86,900	(123)	(132)	6	0
Receive	3-Month USD-LIBOR	1.500%	12/16/2017	43,300	(230)	(40)	3	0
Receive	3-Month USD-LIBOR	2.250%	12/16/2022	20,400	86	(73)	9	0
Receive	3-Month USD-LIBOR	2.500%	12/16/2025	18,300	148	(57)	13	0
Pay	6-Month AUD-BBR-BBSW	3.250%	12/17/2019	AUD 1,700	33	27	2	0
Receive	6-Month EUR-EURIBOR	0.750%	09/16/2025	EUR 2,800	139	95	0	(32)
Receive	6-Month EUR-EURIBOR	1.500%	03/16/2046	2,000	137	27	0	(53)
Receive	6-Month GBP-LIBOR	1.500%	09/16/2017	GBP 1,100	(10)	1	0	(3)
Pay	6-Month GBP-LIBOR	1.500%	09/16/2020	4,700	(106)	(103)	40	0
Receive	6-Month GBP-LIBOR	2.000%	09/16/2025	11,000	334	320	0	(196)
Receive	6-Month GBP-LIBOR	2.000%	09/16/2045	600	79	(5)	0	(22)
Pay	6-Month JPY-LIBOR	1.500%	06/19/2033	JPY 2,340,000	1,126	838	73	0
Pay	6-Month JPY-LIBOR	1.250%	06/17/2035	150,000	1	(23)	5	0
Pay	6-Month JPY-LIBOR	1.500%	12/20/2044	1,030,000	49	(248)	38	0
Pay	28-Day MXN-TIIE	4.300%	09/01/2016	MXN 61,600	18	9	3	0
Pay	28-Day MXN-TIIE	5.010%	10/10/2019	23,600	(7)	2	7	0
Pay	28-Day MXN-TIIE	5.615%	06/02/2020	49,900	43	24	17	0
Pay	28-Day MXN-TIIE	5.620%	11/09/2021	1,100	0	0	1	0
Pay	28-Day MXN-TIIE	5.560%	11/11/2021	1,600	(1)	(1)	1	0
					$ 1,694	$ 648	$ 218	$ (306)
Total Swap Agreements					**$ 1,940**	**$ 616**	**$ 250**	**$ (346)**

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, 2015:

Cash of $5,565 has been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of June 30, 2015. 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**	**$ 619**	**$ 250**	**$ 869**	**$ 0**	**$ (41)**	**$ (346)**	**$ (387)**

(f) 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
BOA	07/2015	AUD	94	$	73	$ 0	$ 0
	07/2015	BRL	2,338		845	93	0
	07/2015	GBP	262		403	0	(9)
	07/2015	JPY	199,000		1,595	0	(31)
	07/2015	$	750	BRL	2,338	3	(1)
	07/2015		2,205	DKK	14,749	0	(1)
	07/2015		496	INR	32,308	10	0
	07/2015		408	PLN	1,527	0	(3)
	09/2015	HKD	251	$	32	0	0
	09/2015	$	70	CNY	430	0	0
	04/2016	DKK	1,302	$	193	0	(3)
	07/2016		14,749		2,227	0	(3)
BPS	07/2015	BRL	5,213		1,680	4	0
	07/2015	JPY	183,839		1,488	0	(14)
	07/2015	$	1,669	BRL	5,213	10	(2)
	07/2015		1,006	MXN	15,606	0	(14)
	08/2015	BRL	3,503	$	1,116	2	0
	08/2015	NZD	3,733		2,516	0	(6)
	01/2016	DKK	7,675		1,194	41	0
BRC	07/2015	PLN	4,615		1,206	0	(20)
	07/2015	$	678	PLN	2,519	0	(9)
	09/2015		154	CNY	941	0	(1)
CBK	07/2015	AUD	3,491	$	2,661	0	(32)
	07/2015	EUR	1,343		1,513	16	0
	07/2015	GBP	13,197		20,283	0	(452)
	07/2015	PLN	39		11	1	0
	07/2015	$	3,138	CAD	3,863	0	(45)
	07/2015		3,756	EUR	3,318	0	(57)
	07/2015		1,509	JPY	186,900	18	0
	07/2015		508	PLN	1,886	2	(8)
	08/2015	GBP	211	$	332	1	0
	08/2015	SEK	4,205		506	0	(2)
	09/2015	MXN	29,541		1,869	1	0
	09/2015	$	577	CNY	3,492	0	(8)
DUB	07/2015	BRL	7,947	$	2,697	169	(28)
	07/2015	$	2,537	BRL	7,947	22	(3)
	10/2015	DKK	10,228	$	1,582	50	0
	01/2016		2,457		382	13	0
FBF	07/2015	BRL	1,884		607	1	0
	07/2015	$	605	BRL	1,884	3	(2)
	09/2015	CNY	7,006	$	1,140	0	(2)
GLM	07/2015	AUD	1,468		1,120	0	(13)
	07/2015	BRL	3,662		1,153	0	(25)
	07/2015	CAD	5,515		4,440	24	0
	07/2015	EUR	16,593		18,138	0	(360)
	07/2015	NZD	2,725		1,935	88	0
	07/2015	PLN	24		7	0	0
	07/2015	$	1,180	BRL	3,662	0	(2)
	07/2015		429	JPY	52,800	2	0
	08/2015	EUR	419	$	470	3	0
	08/2015	NOK	2,145		279	6	0
	08/2015	$	1,312	DKK	8,480	0	(43)
HUS	07/2015	PLN	4,559	$	1,218	7	0
	07/2015	$	2,981	PLN	11,027	3	(54)
	10/2015	DKK	15,325	$	2,351	55	0
JPM	07/2015	BRL	4,064		1,384	80	(4)
	07/2015	EUR	3,507		3,972	63	(1)
	07/2015	NZD	1,008		699	16	0
	07/2015	PLN	12,809		3,411	7	0
	07/2015	$	1,310	BRL	4,064	0	(3)
	07/2015		1,688	EUR	1,497	3	(21)
	07/2015		542	JPY	67,000	5	0
	07/2015		158	PLN	572	0	(6)
	08/2015	GBP	358	$	563	1	0

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Liability
	08/2015	$	585	BRL	1,852	$ 3	$ 0
	08/2015		1,671	INR	108,584	23	0
	09/2015		106	CNY	640	0	(2)
	10/2015	DKK	504	$	77	1	0
	01/2016	BRL	3,241		1,100	122	0
	01/2016	DKK	1,545		236	4	0
	04/2016		1,298		193	0	(3)
MSB	07/2015	$	18,875	EUR	16,870	3	(71)
	07/2015		1,791	JPY	220,939	14	0
	07/2015		809	PLN	3,063	6	0
	08/2015	EUR	16,730	$	18,730	70	0
	08/2015	JPY	220,939		1,792	0	(14)
	09/2015	$	70	CNY	431	0	0
	01/2016	DKK	2,530	$	387	7	0
SCX	07/2015	BRL	6,269		2,021	4	0
	07/2015	JPY	144,800		1,168	0	(15)
	07/2015	MXN	15,606		1,001	9	0
	07/2015	$	2,064	BRL	6,269	0	(48)
	07/2015		60,697	EUR	54,167	0	(309)
	07/2015		239	PLN	882	0	(5)
	08/2015	EUR	54,167	$	60,723	309	0
	09/2015	$	995	MXN	15,606	0	(9)
UAG	07/2015	BRL	1,942	$	618	0	(7)
	07/2015	EUR	55,594		60,722	25	(1,282)
	07/2015	SGD	1,502		1,123	9	0
	07/2015	$	3,893	AUD	5,053	5	0
	07/2015		626	BRL	1,942	0	(1)
	07/2015		1,100	DKK	7,374	2	0
	07/2015		1,332	EUR	1,185	0	(11)
	07/2015		21,131	GBP	13,459	16	0
	08/2015	AUD	5,053	$	3,886	0	(5)
	08/2015	DKK	8,235		1,218	0	(15)
	08/2015	GBP	13,459		21,126	0	(16)
	08/2015	$	611	BRL	1,942	7	0
	10/2015	DKK	511	$	78	1	0
	07/2016		7,374		1,110	0	(4)
Total Forward Foreign Currency Contracts						**$ 1,463**	**$ (3,105)**

PURCHASED OPTIONS:

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price		Expiration Date	Notional Amount		Cost	Market Value
BOA	Put - OTC EUR versus USD	$	1.010	07/21/2015	EUR	98	$ 6	$ 2
	Put - OTC EUR versus USD		1.050	07/21/2015		112	11	6
	Call - OTC USD versus BRL	BRL	3.280	07/29/2015	$	600	4	3
	Call - OTC USD versus JPY	JPY	127.000	07/20/2015		1,800	10	1
BPS	Call - OTC USD versus JPY		127.000	07/20/2015		2,000	12	1
BRC	Put - OTC EUR versus JPY		130.000	07/21/2015	EUR	100	8	10
CBK	Put - OTC EUR versus USD	$	1.050	07/21/2015		96	8	5
DUB	Call - OTC USD versus BRL	BRL	3.230	07/27/2015	$	600	4	4
	Call - OTC USD versus JPY	JPY	123.000	08/24/2015		1,100	12	12
FBF	Call - OTC USD versus BRL	BRL	3.230	07/27/2015		700	5	5
	Call - OTC USD versus BRL		3.280	07/29/2015		600	4	3
GLM	Put - OTC EUR/USD versus JPY	$1.110/JPY	121.500	07/21/2015		100	8	15
HUS	Put - OTC EUR versus USD	$	1.010	07/21/2015	EUR	82	4	2
MSB	Put - OTC EUR versus JPY	JPY	130.000	07/21/2015		100	9	10
	Call - OTC USD versus JPY		127.000	07/20/2015	$	700	4	0
							$ 109	$ 79

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	$ 81	$ 7
GLM	Call - OTC 10-Year Interest Rate Swap	6-Month EUR-EURIBOR	Pay	1.000%	11/26/2015	EUR 2,500	41	23
							$ 122	$ 30

STRADDLE OPTIONS

Counterparty	Description	Exercise Level [(1)]	Expiration Date	Notional Amount	Cost [(1)]	Market Value
BRC	Call & Put - OTC 1-Month EUR/USD vs. 1-Month EUR/USD Forward Currency Volatility Agreement	0.000%	07/02/2015	$ 700	$ 0	$ 0
DUB	Call & Put - OTC 1-Month EUR/USD vs. 1-Month EUR/USD Forward Currency Volatility Agreement	0.000%	07/02/2015	700	0	0
					$ 0	$ 0
Total Purchased Options					**$ 231**	**$ 109**

[(1)] Exercise level and final cost determined on a future date, based upon implied volatility parameters.

WRITTEN OPTIONS:

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Premiums (Received)	Market Value
BOA	Put - OTC USD versus BRL	BRL 3.090	07/29/2015	$ 600	$ (5)	$ (6)
BPS	Put - OTC USD versus JPY	JPY 117.000	07/02/2015	1,200	(7)	0
DUB	Put - OTC USD versus BRL	BRL 3.050	07/27/2015	600	(4)	(4)
	Call - OTC USD versus JPY	JPY 125.000	08/24/2015	1,700	(10)	(9)
FBF	Put - OTC USD versus BRL	BRL 3.030	07/27/2015	700	(4)	(3)
	Put - OTC USD versus BRL	3.090	07/29/2015	600	(5)	(6)
HUS	Call - OTC USD versus CNY	CNY 6.600	02/05/2016	500	(6)	(1)
	Put - OTC USD versus JPY	JPY 118.100	07/20/2015	700	(5)	(1)
JPM	Call - OTC USD versus CNY	CNY 6.600	02/05/2016	460	(5)	0
MSB	Put - OTC USD versus JPY	JPY 118.100	07/20/2015	1,800	(13)	(1)
SOG	Put - OTC USD versus JPY	117.000	07/02/2015	800	(5)	0
					$ (69)	$ (31)

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)	$ (4)
BRC	Call - OTC 5-Year Interest Rate Swap (Effective 05/04/2021)	6-Month EUR-EURIBOR	Receive	0.400%	04/29/2016	EUR 3,000	(11)	(2)
	Put - OTC 5-Year Interest Rate Swap (Effective 05/04/2021)	6-Month EUR-EURIBOR	Pay	1.400%	04/29/2016	3,000	(26)	(117)
GLM	Put - OTC 5-Year Interest Rate Swap	6-Month GBP-LIBOR	Pay	1.750%	07/10/2015	GBP 3,300	(13)	(11)
	Put - OTC 10-Year Interest Rate Swap	6-Month GBP-LIBOR	Pay	2.200%	07/13/2015	800	(4)	(7)
	Call - OTC 10-Year Interest Rate Swap	6-Month GBP-LIBOR	Receive	1.400%	07/15/2015	800	(7)	0
	Put - OTC 10-Year Interest Rate Swap	6-Month GBP-LIBOR	Pay	2.200%	07/15/2015	800	(2)	(7)
	Call - OTC 30-Year Interest Rate Swap	6-Month EUR-EURIBOR	Receive	0.750%	09/11/2015	EUR 500	(13)	0
	Put - OTC 30-Year Interest Rate Swap	6-Month EUR-EURIBOR	Pay	1.300%	09/11/2015	500	(14)	(63)
	Call - OTC 30-Year Interest Rate Swap	6-Month EUR-EURIBOR	Receive	1.564%	11/26/2015	1,000	(41)	(41)
JPM	Call - OTC 10-Year Interest Rate Swap	6-Month GBP-LIBOR	Receive	1.400%	07/27/2015	GBP 800	(5)	0
	Put - OTC 10-Year Interest Rate Swap	6-Month GBP-LIBOR	Pay	2.200%	07/27/2015	800	(4)	(11)
							$ (216)	$ (263)
Total Written Options							**$ (285)**	**$ (294)**

TRANSACTIONS IN WRITTEN CALL AND PUT OPTIONS FOR THE PERIOD ENDED JUNE 30, 2015:

	# of Contracts	Notional Amount in $	Notional Amount in AUD	Notional Amount in EUR	Notional Amount in GBP	Premiums
Balance at Beginning of Period	0	$ 20,900	AUD 0	EUR 7,900	GBP 1,800	$ (443)
Sales	26	26,660	3,400	22,750	11,400	(304)
Closing Buys	0	(8,400)	0	(10,400)	(4,100)	225
Expirations	(13)	(21,200)	(3,400)	(8,930)	(900)	139
Exercised	(13)	(4,300)	0	(3,320)	(900)	98
Balance at End of Period	0	$ 13,660	AUD 0	EUR 8,000	GBP 7,300	$ (285)

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - BUY PROTECTION [(2)]

Counterparty	Reference Entity	Fixed Deal (Pay) Rate	Maturity Date	Implied Credit Spread at June 30, 2015 [(4)]	Notional Amount [(5)]	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BOA	Universal Health Services, Inc.	(1.250%)	06/20/2016	0.188%	$ 1,000	$ 0	$ (11)	$ 0	$ (11)
	Wind Acquisition Finance S.A.	(5.000%)	06/20/2021	3.232%	EUR 600	(82)	18	0	(64)
BRC	UBS AG	(1.000%)	09/20/2022	1.800%	$ 750	22	17	39	0
CBK	SABMiller PLC	(1.000%)	03/20/2020	0.556%	EUR 400	(11)	1	0	(10)
	UBS AG	(1.000%)	09/20/2022	1.800%	$ 800	43	(2)	41	0
GST	SABMiller PLC	(1.000%)	03/20/2020	0.556%	EUR 400	(10)	1	0	(9)
MYC	UBS AG	(1.000%)	03/20/2017	1.162%	$ 850	(1)	3	2	0
						$ (39)	$ 27	$ 82	$ (94)

CREDIT DEFAULT SWAPS ON SOVEREIGN ISSUES - SELL PROTECTION [(3)]

Counterparty	Reference Entity	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2015 [(4)]	Notional Amount [(5)]	Premiums (Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BOA	Brazil Government International Bond	1.000%	03/20/2019	2.218%	$ 300	$ (15)	$ 2	$ 0	$ (13)
	Brazil Government International Bond	1.000%	09/20/2019	2.310%	100	(3)	(2)	0	(5)
	France Government International Bond	0.250%	03/20/2020	0.303%	1,000	(7)	5	0	(2)
BRC	France Government International Bond	0.250%	03/20/2020	0.303%	300	(2)	1	0	(1)
CBK	Brazil Government International Bond	1.000%	03/20/2019	2.218%	100	(4)	0	0	(4)
	France Government International Bond	0.250%	03/20/2020	0.303%	200	(2)	2	0	0
	France Government International Bond	0.250%	06/20/2020	0.321%	200	(1)	0	0	(1)
DUB	Brazil Government International Bond	1.000%	03/20/2019	2.218%	300	(13)	0	0	(13)
	Italy Government International Bond	1.000%	06/20/2019	1.134%	100	(1)	1	0	0
GST	France Government International Bond	0.250%	03/20/2020	0.303%	1,600	(14)	10	0	(4)
	France Government International Bond	0.250%	06/20/2020	0.321%	200	(1)	0	0	(1)
	Greece Government International Bond	1.000%	12/20/2015	50.000%	100	(7)	(43)	0	(50)
HUS	Brazil Government International Bond	1.000%	06/20/2019	2.267%	100	(2)	(3)	0	(5)
	Brazil Government International Bond	1.000%	09/20/2019	2.310%	100	(3)	(2)	0	(5)
	France Government International Bond	0.250%	03/20/2020	0.303%	300	(2)	1	0	(1)
JPM	Brazil Government International Bond	1.000%	03/20/2019	2.218%	200	(8)	(1)	0	(9)
	France Government International Bond	0.250%	03/20/2020	0.303%	600	(4)	3	0	(1)
	France Government International Bond	0.250%	06/20/2020	0.321%	300	(2)	1	0	(1)
MYC	Brazil Government International Bond	1.000%	03/20/2019	2.218%	100	(4)	0	0	(4)
	Brazil Government International Bond	1.000%	09/20/2019	2.310%	100	(3)	(2)	0	(5)
	France Government International Bond	0.250%	03/20/2020	0.303%	700	(4)	2	0	(2)
						$ (102)	$ (25)	$ 0	$ (127)

CREDIT DEFAULT SWAPS ON CREDIT INDICES - BUY PROTECTION [(2)]

Counterparty	Index/Tranches	Fixed Deal (Pay) Rate	Maturity Date	Notional Amount [(5)]	Premiums Paid	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value [(6)] Asset	Swap Agreements, at Value [(6)] Liability
BPS	iTraxx Europe Subordinated 23 5-Year Index	(1.000%)	06/20/2020	EUR 200	$ 6	$ 2	$ 8	$ 0
CBK	iTraxx Europe Subordinated 22 5-Year Index	(1.000%)	12/20/2019	400	14	(1)	13	0
GST	iTraxx Europe Subordinated 22 5-Year Index	(1.000%)	12/20/2019	200	7	0	7	0
	iTraxx Europe Subordinated 23 5-Year Index	(1.000%)	06/20/2020	800	27	6	33	0
					$ 54	$ 7	$ 61	$ 0

(2) 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.

(3) 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.

(4) 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.

(5) 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.

(6) 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.

CROSS-CURRENCY SWAPS

Counterparty	Receive	Pay	Maturity Date (7)	Notional Amount of Currency Received	Notional Amount of Currency Delivered	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value	
								Asset	Liability
BOA	Floating rate equal to 3-Month CHF-LIBOR less 0.230% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	12/16/2017	CHF 900	$ 964	$ 2	$ 0	$ 2	$ 0
	Floating rate equal to 3-Month EUR-EURIBOR less 0.100% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	12/16/2020	EUR 1,600	1,776	12	15	27	0
	Floating rate equal to 3-Month EUR-EURIBOR less 0.200% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	12/16/2025	590	644	1	18	19	0
BPS	Floating rate equal to 3-Month EUR-EURIBOR less 0.100% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	12/16/2020	10,970	11,979	70	315	385	0
CBK	Floating rate equal to 3-Month EUR-EURIBOR less 0.100% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	12/16/2020	2,400	2,688	8	9	17	0
	Floating rate equal to 3-Month EUR-EURIBOR less 0.200% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	12/16/2025	4,590	5,003	16	139	155	0
DUB	Floating rate equal to 3-Month EUR-EURIBOR less 0.100% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	12/16/2020	2,000	2,226	26	2	28	0
FBF	Floating rate equal to 3-Month CHF-LIBOR less 0.230% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	12/16/2017	CHF 900	952	(1)	14	13	0
GLM	Floating rate equal to 3-Month CHF-LIBOR less 0.230% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	12/16/2017	800	856	(1)	4	3	0
	Floating rate equal to 3-Month EUR-EURIBOR less 0.200% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	12/16/2025	EUR 300	336	1	0	1	0
UAG	Floating rate equal to 3-Month CHF-LIBOR less 0.230% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	12/16/2017	CHF 700	747	(5)	10	5	0
						$ 129	$ 526	$ 655	$ 0

(7) At the maturity date, the notional amount of the currency received will be exchanged back for the notional amount of the currency delivered.

INTEREST RATE SWAPS

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	1-Month GBP-UKRPI	3.537%	05/15/2045	GBP 100	$ 0	$ 1	$ 1	$ 0
BPS	Pay	1-Year BRL-CDI	12.360%	01/02/2018	BRL 400	0	(2)	0	(2)
	Pay	1-Year BRL-CDI	12.055%	01/04/2021	11,200	(1)	(27)	0	(28)
CBK	Pay	1-Month GBP-UKRPI	3.495%	05/15/2045	GBP 100	0	(1)	0	(1)
DUB	Pay	1-Month GBP-UKRPI	3.503%	05/15/2045	100	0	(1)	0	(1)
	Pay	1-Year BRL-CDI	12.055%	01/04/2021	BRL 6,000	0	(15)	0	(15)
	Pay	1-Year BRL-CDI	12.230%	01/04/2021	2,700	5	(6)	0	(1)
GLM	Pay	1-Month GBP-UKRPI	3.310%	05/15/2030	GBP 300	0	(4)	0	(4)
	Pay	1-Month GBP-UKRPI	3.311%	05/15/2030	200	0	(3)	0	(3)
	Pay	1-Month GBP-UKRPI	3.313%	05/15/2030	100	0	(1)	0	(1)
	Pay	1-Month GBP-UKRPI	3.543%	05/15/2045	100	0	2	2	0
HUS	Pay	1-Year BRL-CDI	12.055%	01/04/2021	BRL 3,300	(1)	(7)	0	(8)
JPM	Pay	1-Year BRL-CDI	11.320%	01/04/2016	3,300	0	(8)	0	(8)
MYC	Pay	1-Month GBP-UKRPI	3.535%	05/15/2045	GBP 250	0	4	4	0
						$ 3	$ (68)	$ 7	$ (72)
Total Swap Agreements						**$ 45**	**$ 467**	**$ 805**	**$ (293)**

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, 2015:

(g) Securities with an aggregate market value of $2,968 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of June 30, 2015.

	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 [8]
BOA	$ 106	$ 19	$ 49	$ 174	$ (51)	$ (10)	$ (95)	$ (156)	$ 18	$ 0	$ 18
BPS	57	1	393	451	(36)	0	(30)	(66)	385	(240)	145
BRC	0	10	39	49	(30)	(119)	(1)	(150)	(101)	0	(101)
CBK	39	5	226	270	(604)	0	(16)	(620)	(350)	709	359
DUB	254	16	28	298	(31)	(13)	(30)	(74)	224	(400)	(176)
FBF	4	8	13	25	(4)	(9)	0	(13)	12	0	12
GLM	123	38	6	167	(443)	(129)	(8)	(580)	(413)	739	326
GST	0	0	40	40	0	0	(64)	(64)	(24)	0	(24)
HUS	65	2	0	67	(54)	(2)	(19)	(75)	(8)	0	(8)
JPM	328	0	0	328	(40)	(11)	(19)	(70)	258	(310)	(52)
MSB	100	10	0	110	(85)	(1)	0	(86)	24	0	24
MYC	0	0	6	6	0	0	(11)	(11)	(5)	0	(5)
SCX	322	0	0	322	(386)	0	0	(386)	(64)	0	(64)
SOG	0	0	0	0	0	0	0	0	0	(10)	(10)
UAG	65	0	5	70	(1,341)	0	0	(1,341)	(1,271)	1,520	249
Total Over the Counter	**$1,463**	**$109**	**$805**	**$2,377**	**$(3,105)**	**$(294)**	**$(293)**	**$(3,692)**			

[8] 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, 2015:

	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	$ 619	$ 619
Swap Agreements	0	32	0	0	218	250
	$ 0	$ 32	$ 0	$ 0	$ 837	$ 869
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 1,463	$ 0	$ 1,463
Purchased Options	0	0	0	79	30	109
Swap Agreements	0	143	0	655	7	805
	$ 0	$ 143	$ 0	$ 2,197	$ 37	$ 2,377
	$ 0	$ 175	$ 0	$ 2,197	$ 874	$ 3,246
Financial Derivative Instruments - Liabilities						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 41	$ 41
Swap Agreements	0	40	0	0	306	346
	$ 0	$ 40	$ 0	$ 0	$ 347	$ 387
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 3,105	$ 0	$ 3,105
Written Options	0	0	0	31	263	294
Swap Agreements	0	221	0	0	72	293
	$ 0	$ 221	$ 0	$ 3,136	$ 335	$ 3,692
	$ 0	$ 261	$ 0	$ 3,136	$ 682	$ 4,079

The Effect of Financial Derivative Instruments on the Statement of Operations for the period ended June 30, 2015:

	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	$ 4	$ 4
Futures	0	0	0	0	(1,061)	(1,061)
Swap Agreements	0	(28)	0	0	722	694
	$ 0	$ (28)	$ 0	$ 0	$ (335)	$ (363)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 10,716	$ 0	$ 10,716
Purchased Options	0	(21)	0	64	0	43
Written Options	0	34	0	259	35	328
Swap Agreements	0	13	0	(1,609)	8	(1,588)
	$ 0	$ 26	$ 0	$ 9,430	$ 43	$ 9,499
	$ 0	$ (2)	$ 0	$ 9,430	$ (292)	$ 9,136
Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Futures	$ (110)	$ 0	$ 0	$ 0	$ (705)	$ (815)
Swap Agreements	0	(32)	0	0	(507)	(539)
	$ (110)	$ (32)	$ 0	$ 0	$ (1,212)	$ (1,354)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ (4,707)	$ 0	$ (4,707)
Purchased Options	0	0	0	(97)	(50)	(147)
Written Options	0	(12)	0	37	(53)	(28)
Swap Agreements	0	11	0	976	(66)	921
	$ 0	$ (1)	$ 0	$ (3,791)	$ (169)	$ (3,961)
	$ (110)	$ (33)	$ 0	$ (3,791)	$ (1,381)	$ (5,315)

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of June 30, 2015 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2015
Investments in Securities, at Value				
Australia				
Corporate Bonds & Notes	$ 0	$ 701	$ 0	$ 701
Mortgage-Backed Securities	0	34	0	34
Sovereign Issues	0	603	0	603
Brazil				
Corporate Bonds & Notes	0	487	0	487
Canada				
Corporate Bonds & Notes	0	500	0	500
Sovereign Issues	0	1,230	0	1,230
Cayman Islands				
Asset-Backed Securities	0	973	0	973
China				
Corporate Bonds & Notes	0	210	0	210
Denmark				
Corporate Bonds & Notes	0	9,734	0	9,734
France				
Corporate Bonds & Notes	0	2,500	0	2,500
Mortgage-Backed Securities	0	958	0	958
Sovereign Issues	0	9,926	0	9,926
Germany				
Corporate Bonds & Notes	0	1,486	0	1,486
Sovereign Issues	0	1,150	0	1,150
Greece				
Corporate Bonds & Notes	0	638	0	638
Sovereign Issues	0	485	0	485
Hong Kong				
Corporate Bonds & Notes	0	203	0	203
Ireland				
Asset-Backed Securities	0	42	0	42
Corporate Bonds & Notes	0	2,017	0	2,017
Mortgage-Backed Securities	0	769	0	769
Italy				
Asset-Backed Securities	0	87	0	87
Corporate Bonds & Notes	0	3,417	0	3,417
Mortgage-Backed Securities	0	1,794	0	1,794
Sovereign Issues	0	33,312	0	33,312
Japan				
Corporate Bonds & Notes	0	200	0	200
Luxembourg				
Corporate Bonds & Notes	0	1,490	0	1,490
Mexico				
Sovereign Issues	0	774	0	774
Netherlands				
Asset-Backed Securities	0	1,090	0	1,090
Corporate Bonds & Notes	0	1,352	0	1,352
Norway				
Sovereign Issues	0	663	0	663
Portugal				
Corporate Bonds & Notes	0	902	0	902
Slovenia				
Corporate Bonds & Notes	0	567	0	567
Sovereign Issues	0	6,082	0	6,082
Spain				
Corporate Bonds & Notes	$ 0	$ 1,643	$ 0	$ 1,643
Sovereign Issues	0	10,489	0	10,489
Supranational				
Corporate Bonds & Notes	0	535	0	535
Sweden				
Corporate Bonds & Notes	0	638	0	638
Sovereign Issues	0	167	0	167
Switzerland				
Corporate Bonds & Notes	0	2,555	0	2,555
United Kingdom				
Asset-Backed Securities	0	211	0	211
Corporate Bonds & Notes	0	5,088	0	5,088
Mortgage-Backed Securities	0	5,665	0	5,665
Sovereign Issues	0	12,664	0	12,664
United States				
Asset-Backed Securities	0	8,951	0	8,951
Corporate Bonds & Notes	0	7,286	0	7,286
Mortgage-Backed Securities	0	6,859	36	6,895
Municipal Bonds & Notes	0	130	0	130
Preferred Securities	22	0	0	22
U.S. Government Agencies	0	3,479	0	3,479
U.S. Treasury Obligations	0	15,219	0	15,219
Short-Term Instruments				
Certificates of Deposit	0	701	0	701
Commercial Paper	0	3,233	0	3,233
Repurchase Agreements	0	1,782	0	1,782
	$ 22	$ 173,671	$ 36	$ 173,729
Investments in Affiliates, at Value				
Short-Term Instruments				
Central Funds Used for Cash Management Purposes	59,144	0	0	59,144
Total Investments	$ 59,166	$ 173,671	$ 36	$ 232,873
Short Sales, at Value - Liabilities				
U.S. Government Agencies	$ 0	$ (14,935)	$ 0	$ (14,935)
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	619	250	0	869
Over the counter	0	2,377	0	2,377
	$ 619	$ 2,627	$ 0	$ 3,246
Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	(41)	(346)	0	(387)
Over the counter	0	(3,692)	0	(3,692)
	$ (41)	$ (4,038)	$ 0	$ (4,079)
Totals	$ 59,744	$ 157,325	$ 36	$ 217,105

There were no significant transfers between Levels 1, 2, or 3 during the period ended June 30, 2015.

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") serves as the investment adviser (the "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 Portfolio is treated as an investment company under the reporting requirements of 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 appreciation/depreciation 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, if any, 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 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 (overdistributed) net investment income (loss), accumulated undistributed/(overdistributed) net realized gains (losses) and/or paid in capital to more appropriately conform financial accounting to tax characterizations of dividend distributions.

(e) New Accounting Pronouncements In June 2014, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”), ASU 2014-11, that expanded 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 became effective prospectively for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. At this time, management is evaluating the implications of these changes on the financial statements.

In May 2015, the FASB issued ASU 2015-07 which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The ASU also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The ASU is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. 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 price of the Portfolio’s shares is based on the Portfolio’s NAV. The NAV of a class of the Portfolio’s shares is determined by dividing the total value of the Portfolio’s portfolio investments and other assets attributable to that class, less any liabilities, by the total number of shares outstanding of that class.

Portfolio shares are ordinarily valued as of the NYSE Close on each day that the NYSE is open. Information that becomes known to the Portfolio or its agents after the time as of which 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. The Portfolio reserves the right to change the time its NAV is calculated if the Portfolio closes earlier, or as permitted by the SEC.

For purposes of calculating NAV, portfolio securities and other assets for which market quotes are readily available are valued at market value. 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 established market makers or prices (including evaluated prices) supplied by the Portfolio’s approved pricing services, quotation reporting systems and other third-party sources (together, “Pricing Services”). The Portfolio will normally use pricing data for domestic equity securities received shortly after the NYSE Close and does not normally take into account trading, clearances or settlements that take place after the NYSE Close. A foreign (non-U.S.) equity security traded on a foreign exchange or on more than one exchange is typically valued using pricing information from the exchange considered by the manager to be the primary exchange. A foreign (non-U.S.) equity security will be valued as of the close of trading on the foreign exchange, or the NYSE Close, if the NYSE Close occurs before the end of trading on the foreign exchange. Domestic and foreign (non-U.S.) fixed income securities, non-exchange traded derivatives, and equity options are normally valued on the basis of quotes obtained from brokers and dealers or Pricing Services using data reflecting the earlier closing of the principal markets for those securities. Prices obtained from Pricing Services may be based on, among other things, information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Certain fixed income securities purchased on a delayed-delivery basis are marked to market daily until settlement at the forward settlement date. Exchange-traded options, except equity options, futures and options on futures are valued at the settlement price determined by the relevant exchange. Swap agreements are valued on the basis of bid quotes obtained from brokers and dealers or market-based prices supplied by Pricing Services or other pricing sources. With respect to any portion of the Portfolio's assets that are invested in one or more open-end management investment companies, the Portfolio's NAV will be calculated based upon the NAVs of such investments.

If a foreign (non-U.S.) equity security's value has materially changed after the close of the security's primary exchange or principal market but before the NYSE Close, the security may be valued at fair value based on procedures established and approved by the Board of Trustees. Foreign (non-U.S.) equity securities that do not trade when the NYSE is open are also valued at fair value. With respect to foreign (non-U.S.) equity securities, the Portfolio may determine the fair value of investments based on information provided by Pricing Services and other third-party vendors, which may recommend fair value or adjustments with reference to other securities, indices or assets. In considering whether fair valuation is required and in determining fair values, the Portfolio may, among other things, consider significant events (which may be considered to include changes in the value of U.S. securities or securities indices) that occur after the close of the relevant market and before the NYSE Close. The Portfolio may utilize modeling tools provided by third-party vendors to determine fair values of non-U.S. securities. Foreign (non-U.S.) exchanges may permit trading in foreign (non-U.S.) equity securities on days when the Trust is not open for business, which may result in the Portfolio's portfolio investments being affected when you are unable to buy or sell shares.

Senior secured floating rate loans for which an active secondary market exists to a reliable degree will be valued at the mean of the last available bid/ask prices in the market for such loans, as provided by a Pricing Service. Senior secured floating rate loans for which an active secondary market does not exist to a reliable degree will be valued at fair value, which is intended to approximate market value. In valuing a senior secured floating rate loan at fair value, the factors considered may include, but are not limited to, the following: (a) the creditworthiness of the borrower and any intermediate participants, (b) the terms of the loan, (c) recent prices in the market for similar loans, if any, and (d) recent prices in the market for instruments of similar quality, rate, period until next interest rate reset and maturity.

Investments valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from Pricing Services. 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 Trust is not open for business. As a result, to the extent that the Portfolio holds foreign (non-U.S.) securities, the NAV of the Portfolio's shares may change at times when you cannot purchase, redeem or exchange shares.

Investments for which market quotes or market based valuations are not readily available are valued at fair value as determined in good faith by the Board of Trustees or persons acting at their direction. The Board of Trustees has adopted methods for valuing securities and other assets in circumstances where market quotes are not readily available, and has delegated to PIMCO the responsibility for applying the fair valuation methods. In the event that market quotes or market based valuations are not readily available, and the security or asset cannot be valued pursuant to a Board approved valuation method, the value of the security or asset will be determined in good faith by the Valuation Oversight Committee of the Board of Trustees, generally based on recommendations provided by PIMCO. 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, broker quotes, Pricing Services prices), 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 assets. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which the securities trade do not open for trading for the entire day and no other market prices are available. The Board has delegated to PIMCO the responsibility for monitoring significant events that may materially affect the values of the Portfolio's securities or assets and for determining whether the value of the applicable securities or assets should be reevaluated in light of such significant events.

When the Portfolio uses fair valuation to determine its NAV, securities will not be priced on the basis of quotes from the primary market in which they are traded, but rather may be priced by another method that the Board of Trustees or persons acting at their direction believe reflects fair value. Fair valuation 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 ensure that fair values determined by the Board of Trustees 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. The Portfolio's use of fair valuation may also help to deter "stale price arbitrage" as discussed under the "Frequent or

Excessive Purchases, Exchanges and Redemptions" section in the Portfolio's prospectus.

(b) Fair Value Hierarchy U.S. GAAP describes fair 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, or 3). The inputs or methodology used for valuing securities are not necessarily an indication of the risks 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 material, 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, and if material, a Level 3 reconciliation and details of significant unobservable inputs, 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 value The valuation methods (or "techniques") and significant inputs used in determining the fair values of portfolio securities or other assets 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 on the basis of quotes obtained from brokers and dealers or 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, reported trades 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 valued (denominated) in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates (currency spot and forward 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 Trust is not open for business. 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 debt instruments (such as commercial paper) having a remaining maturity of 60 days or less may be valued at amortized cost, so long as the amortized cost value of such short-term debt instrument is approximately the same as the fair value of the instrument as determined without the use of amortized cost valuation. Prior to July 31, 2015, short-term investments having a maturity of 60 days or less and repurchase agreements were generally valued at amortized cost which approximates fair 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. Other than swap agreements, which are valued using a broker-dealer bid quotation or on market-based prices provided by pricing services or other pricing sources, these contracts are normally valued on the basis of quotes obtained from a quotation reporting system, established market makers or Pricing Services (normally determined at the close of the New York market). 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 quoted prices, issuer details, indices, bid/ask spreads, interest rates, implied volatilities, 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 (if available). 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.

4. SECURITIES AND OTHER INVESTMENTS

(a) Investments in Securities

Delayed-Delivery Transactions The Portfolio may purchase or sell securities on a delayed-delivery basis. These transactions involve a commitment by the Portfolio to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period. When delayed-delivery transactions are outstanding, the Portfolio will designate or receive as collateral liquid assets in an amount sufficient to meet the purchase price or respective obligations. When purchasing a security on a delayed-delivery basis, the Portfolio assumes the rights and risks of ownership of the security, including the risk of price and yield fluctuations, and takes such fluctuations into account when determining its NAV. The Portfolio may dispose of or renegotiate a delayed-delivery transaction after it is entered into, which may result in a realized gain or loss. When the Portfolio has sold a security on a delayed-delivery basis, the Portfolio does not participate in future gains and losses with respect to the security.

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 that directly or indirectly represent a participation in, or are secured by and payable from, loans on real property. 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. 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. Many of the risks of investing in mortgage-related securities secured by commercial mortgage loans reflect the effects of local and other economic conditions on real estate markets, the ability of tenants to make lease payments, and the ability of a property to attract and retain tenants. These securities may be less liquid and may exhibit greater price volatility than other types of mortgage-related or other asset-backed securities. Other asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans.

Collateralized Mortgage Obligations ("CMOs") are debt obligations of a legal entity that are collateralized by whole mortgage loans or private mortgage bonds 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. CMOs 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. In addition to the normal risks associated with fixed income securities discussed elsewhere in this report and the Portfolio's prospectus and statement of additional information (e.g., prepayment risk, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may be exacerbated if the interest rate payable on a structured financing changes based on multiples of changes in interest rates or inversely to changes in interest rates)), CBOs, CLOs and other 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 quality of the collateral may decline in value or default, (iii) the Portfolio may invest in CBOs, CLOs, or other 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.

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. An 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. Zero coupon securities do not distribute interest on a current basis and tend to be subject to a greater risk than interest-paying securities.

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.

The Portfolio may engage in strategies where it seeks to extend the expiration or maturity of a position, such as a TBA security on an underlying asset, by closing out the position before expiration and opening a new position with respect to the same underlying asset with a later expiration date. TBA securities are purchased or sold on a delayed-delivery basis.

(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 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, 2015 (amounts in thousands†):

Investments in PIMCO Short-Term Floating NAV Portfolio*

Market Value 12/31/2014	Purchases at Cost	Proceeds from Sales	Net Realized Gain/(Loss)	Change in Unrealized Appreciation/ (Depreciation)	Market Value 06/30/2015	Dividend Income (1)	Realized Net Capital Gain Distributions (1)
$ 17	$ 0	$ (17)	$ 0	$ 0	$ 0	$ 0	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.
* Effective July 1, 2015, the Portfolio was liquidated.
(1) A portion of this income may be recharacterized to return of capital and reflected as such on tax forms mailed to shareholders on or about January 31st following each calendar year.

Investments in PIMCO Short-Term Floating NAV Portfolio III

Market Value 12/31/2014	Purchases at Cost	Proceeds from Sales	Net Realized Gain/(Loss)	Change in Unrealized Appreciation/ (Depreciation)	Market Value 06/30/2015	Dividend Income (1)	Realized Net Capital Gain Distributions (1)
$ 40,634	$ 111,188	$ (92,700)	$ (190)	$ 212	$ 59,144	$ 87	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.
(1) A portion of this income may be recharacterized to return of capital and reflected as such on tax forms mailed to shareholders on or about January 31st following each calendar year.

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) 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 are 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 and 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. To mitigate such risk, cash or securities may be exchanged as collateral pursuant to the terms of the underlying 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 based on such movements in the price of the contracts, an appropriate payable or receivable for the change in value may be posted or collected by the Portfolio ("variation margin"). Gains or losses are recognized but not considered realized until the contracts expire or close. Futures contracts involve, to varying degrees, risk of loss in excess of variation margin disclosed within exchange traded or centrally cleared financial derivative instruments 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 with specified amounts of currency and a rate of exchange that may be exercised by a certain 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.

Straddle Options The Portfolio may enter into differing forms of straddle options. A straddle is an investment strategy that uses combinations of options that allow the Portfolio to profit based on the future price movements of the underlying security, regardless of the direction of those movements. A written straddle involves simultaneously writing a call option and a put option on the same security with the same strike price and expiration date. The written straddle increases in value when the underlying security price has little volatility before the expiration date. A purchased straddle involves simultaneously purchasing a call option and a put option on the same security with the same strike price and expiration date. The purchased straddle increases in value when the underlying security price has high volatility, regardless of direction, before the expiration date.

(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 may be privately negotiated in the over the counter market ("OTC swaps") or may be cleared through a third party, known as a central counterparty or derivatives clearing organization ("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 valuations as determined from the underlying contract or in accordance with the requirements of the central counterparty or derivatives clearing organization. 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 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.

For purposes of applying the Portfolio's investment policies and restrictions, swap agreements are generally valued by the Portfolio at market value. In the case of a credit default swap (see below), however, in applying certain of the Portfolio's investment policies and restrictions the Portfolio will value the credit default swap at its notional value or its full exposure value (i.e., the sum of the notional amount for the contract plus the market value), but may value the credit default swap at market value for purposes of applying certain of the Portfolio's other investment policies and restrictions. For example, the Portfolio may value credit default swaps at full exposure value for purposes of the Portfolio's credit quality guidelines (if any) because such value reflects the Portfolio's actual economic exposure during the term of the credit default swap agreement. In this context, both the notional amount and the market value may be positive or negative depending on whether the Portfolio is selling or buying protection through the credit default swap. The manner in which certain securities or other instruments are valued by the Portfolio for purposes of applying investment policies and restrictions may differ from the manner in which those investments are valued by other types of investors.

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 that the referenced entity, obligation or index, as specified in the agreement, undergoes a certain credit event. 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 and 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 that the referenced entity, obligation or index, as specified in the agreement, undergoes a certain 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 and 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 and 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.

Cross-Currency Swap Agreements The Portfolio may enter into cross-currency swap agreements to gain or mitigate exposure to currency risk. Cross-currency swap agreements involve two parties exchanging two different currencies with an agreement to reverse the exchange at a later date at specified exchange rates. The exchange of currencies at the inception date of the contract takes place at the current spot rate. The re-exchange at maturity may take place at the same exchange rate, a specified rate, or the then current spot rate. Interest payments, if applicable, are made between the parties based on interest rates available in the two currencies at the inception of the contract. The terms of cross-currency swap contracts may extend for many years. Cross-currency swaps are usually negotiated with commercial and investment banks. Some cross-currency swaps may not provide for exchanging principal cash flows, but only for exchanging interest cash flows.

Interest Rate Swap Agreements The Portfolio is subject to interest rate risk exposure in the normal course of pursuing its investment objectives. Because the Portfolio holds fixed rate bonds, the value of these bonds may decrease if interest rates rise. To help hedge against this risk and to maintain its ability to generate income at prevailing market rates, the Portfolio may enter into interest rate swap agreements. Interest rate swap agreements involve the exchange by the Portfolio with another party for their respective commitment to pay or receive interest on the notional amount of principal. Certain forms of interest rate swap agreements may include: (i) interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or "cap", (ii) interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or "floor", (iii) interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels, (iv) callable interest rate swaps, under which the buyer pays an upfront fee in consideration for the right to early terminate the swap transaction in whole, at zero cost 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 can be useful as a measure of the sensitivity of a fixed income security's market price to interest rate (i.e., yield) movements that incorporates a security's yield, coupon, final maturity and call features, among other characteristics. A wide variety of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions). At present, the U.S. is experiencing historically low interest rates. This, combined with recent economic recovery and the end of the Fed's quantitative easing program, in October 2014, may 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 the 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 various risks such as, but not limited 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 further 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. The Russian securities market is characterized by limited volume of trading, resulting in difficulty in obtaining accurate prices and trading. The Russian securities market, as compared to U.S. markets, has significant price volatility, less liquidity, a smaller market capitalization and a smaller number of traded securities. There may be little publicly available information about issuers. Settlement, clearing and registration of securities transactions are subject to risks because of registration systems that may not be subject to effective government supervision. This may result in significant delays or problems in registering the transfer of securities. Russian securities laws may not recognize foreign nominee accounts held with a custodian bank, and therefore the custodian may be considered the ultimate owner of securities they hold for their clients. Ownership of securities issued by Russian companies is recorded by companies themselves and by registrars instead of through a central registration system. It is possible that the ownership rights of the Portfolio could be lost through fraud or negligence. While applicable Russian regulations impose liability on registrars for losses resulting from their errors, it may be difficult for the Portfolio to enforce any rights it may have against the registrar or issuer of the securities in the event of loss of share registration. Adverse currency exchange rates are a risk and there may be a lack of available currency hedging instruments. Investments in Russia may be subject to the risk of nationalization or expropriation of assets. Oil, natural gas, metals, and timber account for a significant portion of Russia's exports, leaving the country vulnerable to swings in world prices.

If the Portfolio invests directly in foreign (non-U.S.) currencies or in securities that trade in, and receive revenues in, foreign (non-U.S.) currencies, or in financial derivatives that provide exposure to foreign (non-U.S.) 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 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.

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 where applicable. For derivatives traded on exchanges, the primary credit risk is the creditworthiness of the Portfolio's clearing broker or the exchange itself. 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. PIMCO, as the Adviser, minimizes counterparty risks to the Portfolio through a number of ways. Prior to entering into transactions with a new counterparty, the PIMCO Counterparty Risk Committee conducts an extensive credit review of such counterparty and must approve the use of such counterparty. Furthermore, pursuant to the terms of the underlying contract, to the extent that unpaid amounts owed to the Portfolio exceed a predetermined threshold, such counterparty shall advance collateral to the Portfolio in the form of cash or securities 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.

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 may be 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. Each type of Master Agreement governs certain types of transactions. Different types of transactions may be traded out of different legal entities or affiliates of a particular organization, 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 Master Agreement with a counterparty. For financial reporting purposes the Statement of Assets and Liabilities generally shows derivative assets and liabilities on a gross basis, which reflects the full risks and exposures prior to netting.

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 on 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 on 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 NAV. 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 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 Over the Counter ("OTC") derivatives. Such 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 United States, counterparty risk is significantly reduced as creditors of a futures broker cannot have a claim to Portfolio assets in the segregated account. Additionally, portability of exposure in the event of a default scenario 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 derivative transactions entered into by the Portfolio with 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) taxes and governmental fees; (ii) brokerage fees and commissions and other portfolio transaction expenses; (iii) the costs of borrowing money, including interest expense; (iv) fees and expenses of the Trustees who are not "interested persons" of PIMCO or the Trust, and any counsel retained exclusively for their benefit; (v) extraordinary expense, including costs of litigation and indemnification expenses; (vi) organizational expenses; and (vii) any expenses allocated or allocable to a specific class of shares, which include service fees payable with respect to the Administrative Class Shares, and may include certain other expenses as permitted by the Trust's 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, receives an annual retainer of $35,000, plus $3,600 for each Board meeting attended in person, $750 for each committee meeting attended and $750 for each Board meeting attended telephonically, plus reimbursement of related expenses. In addition, the audit committee chair receives an additional annual retainer of $5,000, the valuation oversight committee lead receives an additional annual retainer of $3,250 (to the extent there are co-leads of the valuation oversight committee, the annual retainer will be split evenly between the co-leads) and the governance committee chair receives 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 fund or 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, 2015, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 of the Act (amounts in thousands):

Purchases	Sales
$ 6,982	$ 842

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, 2015, were as follows (amounts in thousands):

U.S. Government/Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 147,338	$ 137,770	$ 110,013	$ 51,381

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 06/30/2015		Year Ended 12/31/2014	
	Shares	Amount	Shares	Amount
Receipts for shares sold				
Institutional Class	118	$ 1,310	83	$ 884
Administrative Class	2,981	33,100	5,383	56,686
Advisor Class	8,332	91,608	6,335	67,757
Issued as reinvestment of distributions				
Institutional Class	1	8	1	10
Administrative Class	32	356	185	1,966
Advisor Class	43	465	61	665
Cost of shares redeemed				
Institutional Class	(6)	(69)	(5)	(55)
Administrative Class	(4,051)	(44,800)	(3,956)	(41,731)
Advisor Class	(2)	(19)	(1)	(10)
Net increase resulting from Portfolio share transactions	7,448	$ 81,959	8,086	$ 86,172

As of June 30, 2015, one shareholder owned 10% or more of the Portfolio's total outstanding shares comprising 67% of the Portfolio.

13. REGULATORY AND LITIGATION MATTERS

The Trust is not named as a defendant in any material litigation or arbitration proceedings and is not aware of any material litigation or claim pending or threatened against it.

PIMCO has received a Wells Notice from the staff of the U.S. Securities and Exchange Commission ("SEC") that relates to the PIMCO Total Return Active Exchange-Traded Fund ("BOND"), a series of PIMCO ETF Trust. The notice indicates the staff's preliminary determination to recommend that the SEC commence a civil action against PIMCO stemming from a nonpublic investigation relating to BOND. A Wells Notice is neither a formal allegation of wrongdoing nor a finding that any law was violated.

This matter principally pertains to the valuation of smaller sized positions in non-agency mortgage-backed securities purchased by BOND between its inception on February 29, 2012 and June 30, 2012, BOND's performance disclosures for that period, and PIMCO's compliance policies and procedures related to these matters.

The Wells process provides PIMCO with its opportunity to demonstrate to the SEC staff why it believes its conduct was appropriate, in keeping with industry standards, and that no action should be taken. PIMCO believes that this matter is unlikely to have a material adverse effect on any Portfolio or on PIMCO's ability to provide investment management services to any Portfolio.

The foregoing speaks only as of the date of this report.

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.

The Portfolio may be subject to local withholding taxes, including those imposed on realized capital gains. Any applicable foreign capital gains tax is accrued daily based upon net unrealized gains, and may be payable following the sale of any applicable investments.

In accordance with U.S. GAAP, the Adviser has reviewed the Portfolio's tax positions for all open tax years. As of June 30, 2015, 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 2012-2014, 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, 2015, 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/ (Depreciation) [(1)]
$ 241,428	$ 1,593	$ (10,148)	$ (8,555)

(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.

Counterparty Abbreviations:

BOA	Bank of America N.A.	**GLM**	Goldman Sachs Bank USA	**MYC**	Morgan Stanley Capital Services, Inc.
BPS	BNP Paribas S.A.	**GST**	Goldman Sachs International	**SCX**	Standard Chartered Bank
BRC	Barclays Bank PLC	**HUS**	HSBC Bank USA N.A.	**SOG**	Societe Generale
CBK	Citibank N.A.	**JPM**	JPMorgan Chase Bank N.A.	**SSB**	State Street Bank and Trust Co.
DUB	Deutsche Bank AG	**MSB**	Morgan Stanley Bank, N.A	**UAG**	UBS AG Stamford
FBF	Credit Suisse International				

Currency Abbreviations:

AUD	Australian Dollar	**EUR**	Euro	**NOK**	Norwegian Krone
BRL	Brazilian Real	**GBP**	British Pound	**NZD**	New Zealand Dollar
CAD	Canadian Dollar	**HKD**	Hong Kong Dollar	**PLN**	Polish Zloty
CHF	Swiss Franc	**INR**	Indian Rupee	**SEK**	Swedish Krona
CNY	Chinese Renminbi (Mainland)	**JPY**	Japanese Yen	**SGD**	Singapore Dollar
DKK	Danish Krone	**MXN**	Mexican Peso	**USD (or $)**	United States Dollar

Exchange Abbreviations:

CDX.HY	Credit Derivatives Index - High Yield	**OTC**	Over the Counter

Index/Spread Abbreviations:

UKRPI	United Kingdom Retail Price Index

Other Abbreviations:

ABS	Asset-Backed Security	**BBSW**	Bank Bill Swap Reference Rate	**MBS**	Mortgage-Backed Security
ALT	Alternate Loan Trust	**CDI**	Brazil Interbank Deposit Rate	**NCUA**	National Credit Union Administration
BABs	Build America Bonds	**EURIBOR**	Euro Interbank Offered Rate	**TIIE**	Tasa de Interés Interbancaria de Equilibrio
BBR	Bank Bill Rate	**LIBOR**	London Interbank Offered Rate		

Results of Proxy Voting

A special meeting of shareholders of the series of the Trust was held on April 20, 2015. The special meeting was held for the purpose of electing six (6) Trustees to the Trust's Board of Trustees. Shareholders of all series of the Trust voted together on the proposal, and elected the following six (6) Trustees at the special meeting:

- George E. Borst
- Jennifer Holden Dunbar
- Douglas M. Hodge
- Gary F. Kennedy
- Peter B. McCarthy
- Ronald C. Parker

The results of the proxy solicitation on the preceding matter were as follows:

PIMCO Variable Insurance Trust

Trustee Nominee	For*	Withheld*
George E. Borst	1,729,932,872	83,655,588
Jennifer Holden Dunbar	1,737,465,021	76,123,439
Douglas M. Hodge	1,733,328,427	80,260,033
Gary F. Kennedy	1,732,444,393	81,144,067
Peter B. McCarthy	1,735,058,546	78,529,914
Ronald C. Parker	1,734,950,803	78,637,657

* Certain series of the Trust's shares were held by PIMCO-advised funds or accounts for which PIMCO had discretionary authority to vote proxies. Accordingly, PIMCO voted such shares in proportion to the votes of all other Trust shareholders voting on the proposal.

(THIS PAGE INTENTIONALLY LEFT BLANK)

(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 and Trust Company
801 Pennsylvania Avenue
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.

PIMCO

Your Global Investment Authority

PIMCO Variable Insurance Trust

PIMCO Low Duration Portfolio

This brochure contains the following documents:

- Supplement dated July 31, 2015 to the Prospectus for each share class regarding a disclosure related to how portfolio shares are priced.

A company of Allianz

PIMCO Variable Insurance Trust

Supplement Dated July 31, 2015, to the Prospectus for Each Share Class of Each of the PIMCO CommodityRealReturn® Strategy Portfolio, PIMCO Diversified Income Portfolio, PIMCO Emerging Markets Bond Portfolio, PIMCO Foreign Bond Portfolio (Unhedged), PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged), PIMCO Global Advantage® Strategy Bond Portfolio, PIMCO Global Bond Portfolio (Unhedged), PIMCO Global Diversified Allocation Portfolio, PIMCO Global Multi-Asset Managed Allocation Portfolio, PIMCO Global Multi-Asset Managed Volatility Portfolio, PIMCO High Yield Portfolio, PIMCO Long-Term U.S. Government Portfolio, PIMCO Low Duration Portfolio, PIMCO Real Return Portfolio, PIMCO Short-Term Portfolio, PIMCO Total Return Portfolio, and PIMCO Unconstrained Bond Portfolio, each dated April 30, 2015, each as supplemented from time to time (the "Prospectuses")

Effective immediately, the "How Portfolio Shares Are Priced" section in each Prospectus is deleted in its entirety and replaced with the following:

How Portfolio Shares Are Priced

The price of the Portfolio's shares is based on the Portfolio's NAV. The NAV of a class of the Portfolio's shares is determined by dividing the total value of the Portfolio's portfolio investments and other assets attributable to that class, less any liabilities, by the total number of shares outstanding of that class.

Portfolio shares are ordinarily valued as of the NYSE Close on each day that the NYSE is open. 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. The Portfolio reserves the right to change the time its NAV is calculated if the Portfolio closes earlier, or as permitted by the SEC.

For purposes of calculating NAV, portfolio securities and other assets for which market quotes are readily available are valued at market value. 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 established market makers or prices (including evaluated prices) supplied by the Portfolio's approved pricing services, quotation reporting systems and other third-party sources (together, "Pricing Services"). The Portfolio will normally use pricing data for domestic equity securities received shortly after the NYSE Close and does not normally take into account trading, clearances or settlements that take place after the NYSE Close. A foreign (non-U.S.) equity security traded on a foreign exchange or on more than one exchange is typically valued using pricing information from the exchange considered by the manager to be the primary exchange. A foreign (non-U.S.) equity security will be valued as of the close of trading on the foreign exchange, or the NYSE Close, if the NYSE Close occurs before the end of trading on the foreign exchange. Domestic and foreign (non-U.S.) fixed income securities, non-exchange traded derivatives, and equity options are normally valued on the basis of quotes obtained from brokers and dealers or Pricing Services using data reflecting the earlier closing of the principal markets for those securities. Prices obtained from Pricing Services may be based on, among other things, information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Certain fixed income securities purchased on a delayed-delivery basis are marked to market daily until settlement at the forward settlement date. Exchange-traded options, except equity options, futures and options on futures are valued at the settlement price determined by the relevant exchange. Swap agreements are valued on the basis of bid quotes obtained from brokers and dealers or market-based prices supplied by Pricing Services or other pricing sources. With respect to any portion of the Portfolio's assets that are invested in one or more open-end management investment companies, the Portfolio's NAV will be calculated based upon the NAVs of such investments.

If a foreign (non-U.S.) equity security's value has materially changed after the close of the security's primary exchange or principal market but before the NYSE Close, the security may be valued at fair value based on procedures established and approved by the Board of Trustees. Foreign (non-U.S.) equity securities that do not trade when the NYSE is open are also valued at fair value. With respect to foreign (non-U.S.) equity securities, the Portfolio may determine the fair value of investments based on information provided by Pricing Services and other third-party vendors, which may recommend fair value or adjustments with reference to other securities, indices or assets. In considering whether fair valuation is required and in determining fair values, the Portfolio may, among other things, consider significant events (which may be considered to include changes in the value of U.S. securities or securities indices) that occur after the close of the relevant market and before the NYSE Close. The Portfolio may utilize modeling tools provided by third-party vendors to determine fair values of non-U.S. securities. Foreign (non-U.S.) exchanges may permit trading in foreign (non-U.S.) equity securities on days when the Trust is not open for business, which may result in the Portfolio's portfolio investments being affected when you are unable to buy or sell shares.

Senior secured floating rate loans for which an active secondary market exists to a reliable degree will be valued at the mean of the last available bid/ask prices in the market for such loans, as provided by a Pricing Service. Senior secured floating rate loans for which an active secondary market does not exist to a reliable degree will be valued at fair value, which is intended to approximate market value. In valuing a senior secured floating rate loan at fair value, the factors considered may include, but are not limited to, the following: (a) the creditworthiness of the borrower and any intermediate participants, (b) the terms of the loan, (c) recent prices in the market for similar loans, if any, and (d) recent prices in the market for instruments of similar quality, rate, period until next interest rate reset and maturity.

Investments valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from Pricing Services. 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. As a result, to the extent that the Portfolio holds foreign (non-U.S.) securities, the NAV of the Portfolio's shares may change at times when you cannot purchase, redeem or exchange shares.

Investments for which market quotes or market based valuations are not readily available are valued at fair value as determined in good faith by the Board of Trustees or persons acting at their direction. The Board of Trustees has adopted methods for valuing securities and other assets in circumstances where market quotes are not readily available, and has delegated to PIMCO the responsibility for applying the fair valuation methods. In the event that market quotes or market based valuations are not readily available, and the security or asset cannot be valued pursuant to a Board approved valuation method, the value of the security or asset will be determined in good faith by the Valuation Oversight Committee of the Board of Trustees, generally based on recommendations provided by PIMCO. 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, broker quotes, Pricing Services prices), 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 assets. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which the securities trade do not open for trading for the entire day and no other market prices are available. The Board has delegated to PIMCO the responsibility for monitoring significant events that may materially affect the values of the Portfolio's securities or assets and for determining whether the value of the applicable securities or assets should be reevaluated in light of such significant events.

When the Portfolio uses fair valuation to determine its NAV, securities will not be priced on the basis of quotes from the primary market in which they are traded, but rather may be priced by another method that the Board of Trustees or persons acting at their direction believe reflects fair value. Fair valuation 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 ensure that fair values determined by the Board of Trustees 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. The Portfolio's use of fair valuation may also help to deter "stale price arbitrage" as discussed above under "Frequent or Excessive Purchases, Exchanges and Redemptions."

Investors Should Retain This Supplement for Future Reference

PVIT_SUPP2_073115

This supplement is not part of the Semiannual Report and is not authorized for distribution to prospective investors unless preceded or accompanied by a current prospectus.

(THIS PAGE INTENTIONALLY LEFT BLANK)

P I M C O

Semiannual Report

June 30, 2015

Your Global Investment Authority

PIMCO Variable Insurance Trust

PIMCO Low Duration Portfolio

Share Class

- Administrative

A company of Allianz

Table of Contents

This material is authorized for use only when preceded or accompanied by the current PIMCO Variable Insurance Trust (the "Trust") prospectus for the Portfolio. (The variable product prospectus may be obtained by contacting your Investment Consultant.)

Dear PIMCO Variable Insurance Trust Shareholder,

Please find enclosed the Semiannual Report for the PIMCO Variable Insurance Trust covering the six-month reporting period ended June 30, 2015. On the following pages are specific details about the Portfolio's investment performance and a discussion of the factors that most affected performance over the reporting period.

Over the reporting period, investor concerns over the potential for global deflation gradually receded as oil prices rose during the latter part of the reporting period after significantly declining in 2014 and early 2015. In addition, the outlook for economic growth brightened, particularly for developed market economies led by continuing growth in the U.S. and improvement in Europe. Investors, however, were kept on edge by events in Greece, in which the debt crisis worsened sharply towards the latter part of the reporting period. Furthermore, Chinese equity markets experienced heightened volatility and data pointed to a slowing Chinese economy, prompting Chinese policymakers to lower interest rates. In general, longer-maturity global interest rates rose and yield curves steepened, while risk assets such as equities, high yield and emerging markets ("EM") ended the period on a weaker note.

The U.S. economy continued to show signs of strength. First quarter 2015 gross domestic product ("GDP") was revised up to show a more modest decline than previously reported, while other data suggested the U.S. economy is improving after a brief winter downturn. As a result, a healthier labor market, an improving outlook for consumer spending, and modest rebound in oil prices led to a sell-off in the benchmark ten-year U.S. Treasury, causing the yield to rise compared to the beginning of the reporting period. Yields on shorter-maturity U.S. Treasuries declined modestly, as investors continued to debate when the Federal Reserve ("Fed") would begin raising its benchmark interest rate. As such, lingering uncertainty about the start and pace of a potential Fed interest rate hike also led to softness in the U.S. dollar rally, which declined after experiencing a strong rally that began in 2014.

Volatility in Eurozone markets increased during the second half of the reporting period despite gradual improvement in the underlying economies. After falling to an all-time low of 0.07% on April 17, 2015, the ten-year German Bund yield increased nearly 100 basis points before settling at 0.76% at the end of the reporting period. The rise in yield was caused by several fundamental factors that played a role, such as better economic activity, easing credit conditions and a modest uptick in consumer prices, which led to a reduction in deflationary fears. Technical factors also exacerbated the size and speed of the move in the German Bund yield. The debt crisis in Greece added to investor uncertainty, which continues to be a concern outside of the reporting period as events remain fluid.

Finally, market volatility was not confined to Europe as economic conditions and policy choices led to equity volatility in Asia. Weak industrial production and falling inflation prompted the People's Bank of China to cut interest rates multiple times, while ongoing challenges in the banking sector and property market led the Chinese government to recapitalize local government financing entities. Chinese equities were most volatile during the latter part of the period, as thousands of newly opened stock trading accounts first sent the Shanghai Composite soaring before the index corrected by the end of June 2015.

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 0.03% for the reporting period as intermediate- and longer-maturity yields rose. The benchmark ten-year U.S. Treasury note yielded 2.35% at the end of the reporting period, up from 2.17% on December 31, 2014. The Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, declined 0.10% for the reporting period.
- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Barclays U.S. TIPS Index, returned 0.34% over the reporting period. U.S. TIPS were supported by a steeper real yield curve in which short maturity interest rates declined, while longer maturity interest rates rose. U.S. TIPS slightly outperformed nominal U.S. Treasuries, as breakeven inflation levels, a proxy for inflation expectations, moved higher as the effect of lower oil prices rolled off. Diversified commodities, as represented by the Bloomberg Commodity Index Total Return, declined 1.56% over the period.

- Agency mortgage-backed securities ("MBS"), as represented by the Barclays U.S. MBS Fixed Rate Index, returned 0.30% over the reporting period. Non-Agency MBS prices were flat to modestly higher and the sector continued to benefit from limited new issue supply and strong investor demand. Underlying collateral performance has generally been in-line with investor expectations and continues to gradually improve over the long-term.
- U.S. investment grade credit, as represented by the Barclays U.S. Credit Index, declined 0.78% over the reporting period. Global investment grade credit spreads widened amid a record pace of primary supply in the U.S. market. Heightened volatility surrounding Greece's bailout discussions also played a role in pushing spreads wider.
- Global high yield bonds, as measured by the BofA Merrill Lynch Developed Markets High Yield Constrained Index, returned 2.34%. The energy sector, which weighed on high yield returns in 2014 due to declining oil prices, led the asset class higher during the first half of 2015, despite weakness during June 2015. Overall, high yield spreads and yields remained relatively unchanged since the beginning of 2015.
- EM external debt, as represented by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned 1.76% over the reporting period. EM local bonds, as represented by the JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged), declined 4.88% over the period. Idiosyncratic forces remained a dominant theme over the period. China, for example, continued to expand its accommodative measures as both growth and inflation showed signs of further moderation. The Russian ruble continued its recovery from 2014 weakness before stumbling towards the end of the period as European Union sanctions were extended.
- U.S. equities, as represented by the S&P 500 Index, returned 1.23% and developed market equities outside the U.S., as represented by the MSCI EAFE Net Dividend Index (USD Unhedged), returned 5.52% over the reporting period. EM equities, as represented by the MSCI Emerging Markets Index (Net Dividends in USD), returned 2.95% over the same period. Headwinds from a stronger U.S. dollar, falling commodity prices, concerns over slower Chinese economic growth, and declining Chinese equities late in the reporting period were contributing factors in EM equity underperformance relative to developed market equities.

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 broad investment needs.

Sincerely,

Brent R. Harris

Brent R. Harris
Chairman of the Board,
PIMCO Variable Insurance Trust

August 20, 2015

Important Information About the Portfolio

PIMCO Variable Insurance Trust (the "Trust") is an open-end management investment company currently consisting of nineteen 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, etc.). Accordingly, changes in interest rates can be sudden and significant, and there is no guarantee that Fund management will anticipate such movement accurately.

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 as the Fed ended its quantitative easing program in October 2014. 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 further reduce the net assets of 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 net assets 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, sovereign debt 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, leverage 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.

The geographical classification of foreign (non-U.S.) securities in this report are classified by the country of incorporation of a holding. In certain instances, a security's country of incorporation may be different from its country of economic exposure.

On the Portfolio Summary page in this Shareholder Report, the Average Annual Total Return table and Cumulative Returns chart measure performance assuming that any dividend and capital gain distributions were reinvested. The Portfolio's past performance, before and after taxes, is not necessarily an indication of how the Portfolio will perform in the future.

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 pvit.pimco-funds.com, and on the Securities and Exchange Commission's ("SEC") website at 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 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 pvit.pimco-funds.com. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

The 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, 2015 to June 30, 2015.

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.

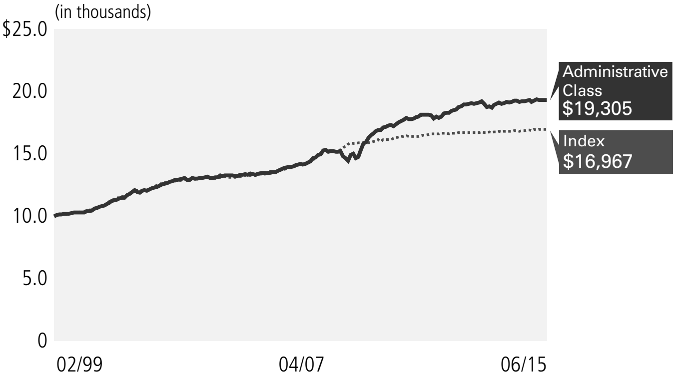
Hypothetical Example for Comparison Purposes

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, 2015



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Allocation Breakdown†

Corporate Bonds & Notes	41.9%
U.S. Treasury Obligations	15.2%
Asset-Backed Securities	12.1%
U.S. Government Agencies	10.6%
Mortgage-Backed Securities	7.9%
Sovereign Issues	7.3%
Short-Term Instruments‡	3.1%
Other	1.9%

† % of Investments, at value as of 06/30/15

‡ Includes Central Funds used for Cash Management Purposes

Average Annual Total Return for the period ended June 30, 2015

		6 Months*	1 Year	5 Years	10 Years	Class Inception (02/16/1999)
—	PIMCO Low Duration Portfolio Administrative Class	0.72%	0.32%	2.14%	3.76%	4.08%
·····	BofA Merrill Lynch 1-3 Year U.S. Treasury Index℠±	0.67%	0.88%	0.82%	2.52%	3.27%

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 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.

± 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	Actual	Hypothetical (5% return before expenses)
Beginning Account Value (01/01/15)	$1,000.00	$1,000.00
Ending Account Value (06/30/15)	$1,007.20	$1,021.40
Expenses Paid During Period†	$ 3.27	$ 3.29
Net Annualized Expense Ratio	0.66%	0.66%

† 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 the number of days in the period/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.

Investment Objective and Strategy Overview

» 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.

Portfolio Insights

» Exposure to investment grade credit benefited performance as these securities generally posted positive total returns during the reporting period.

» Exposure to high yield credit benefited performance as these securities generally posted positive total returns during the reporting period.

» Holdings of U.S. Treasury Inflation-Protected Securities ("TIPS") benefited performance as these securities outperformed nominal government bonds during the reporting period.

» Exposure to U.S. dollar-denominated emerging market bonds benefited performance as these securities generally posted positive total returns during the reporting period.

» Short exposure to the Japanese yen and the euro benefited performance as both currencies depreciated relative to the U.S. dollar during the reporting period.

» An underweight to U.S. duration (or sensitivity to changes in market interest rates) detracted from relative performance as income and carry (or the rate of interest earned by holding the respective securities) in the Portfolio reduced over the reporting period relative to the BofA Merrill Lynch 1-3 Year U.S. Treasury Index, the Portfolio's benchmark index.

Financial Highlights PIMCO Low Duration Portfolio

Selected Per Share Data for the Year or Period Ended:	06/30/2015+	12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010
Administrative Class						
Net asset value beginning of year or period	$ 10.58	$ 10.61	$ 10.78	$ 10.38	$ 10.44	$ 10.11
Net investment income [(a)]	0.06	0.10	0.08	0.14	0.14	0.14
Net realized/unrealized gain (loss)	0.02	(0.01)	(0.09)	0.46	(0.02)	0.39
Total from Investment Operations	0.08	0.09	(0.01)	0.60	0.12	0.53
Dividends from net investment income	(0.09)	(0.12)	(0.16)	(0.20)	(0.18)	(0.17)
Distributions from net realized capital gains	0.00	0.00	0.00	0.00	0.00	(0.03)
Total distributions	(0.09)	(0.12)	(0.16)	(0.20)	(0.18)	(0.20)
Net asset value end of year or period	$ 10.57	$ 10.58	$ 10.61	$ 10.78	$ 10.38	$ 10.44
Total return	0.72%	0.85%	(0.14)%	5.85%	1.11%	5.29%
Net assets end of year or period (000s)	$ 1,289,355	$ 1,481,605	$ 1,510,077	$ 1,527,088	$ 1,326,770	$ 1,238,086
Ratio of expenses to average net assets	0.66%*	0.65%	0.65%	0.65%	0.65%	0.65%
Ratio of expenses to average net assets excluding interest expense	0.65%*	0.65%	0.65%	0.65%	0.65%	0.65%
Ratio of net investment income to average net assets	1.23%*	0.90%	0.79%	1.29%	1.37%	1.33%
Portfolio turnover rate	75%	208%	316%	647%	456%	351%

+ Unaudited
* Annualized
(a) Per share amounts based on average number of shares outstanding during the year or period.

Statement of Assets and Liabilities PIMCO Low Duration Portfolio

(Unaudited)

(Amounts in thousands, except per share amounts)	June 30, 2015
Assets:	
Investments, at value	
Investments in securities*	$ 2,215,485
Investments in Affiliates	22,039
Financial Derivative Instruments	
Exchange-traded or centrally cleared	2,566
Over the counter	36,774
Cash	3
Deposits with counterparty	4,854
Foreign currency, at value	3,394
Receivable for Investments sold~	280,376
Receivable for Portfolio shares sold	1,805
Interest receivable	7,181
Dividends receivable from Affiliates	2
Total Assets	2,574,479
Liabilities:	
Borrowings & Other Financing Transactions	
Payable for reverse repurchase agreements	$ 38,067
Payable for sale-buyback transactions	56,813
Payable for short sales	4,182
Financial Derivative Instruments	
Exchange-traded or centrally cleared	641
Over the counter	10,476
Payable for investments purchased~	477,323
Payable for investments in Affiliates purchased	2
Deposits from counterparty	29,335
Payable for Portfolio shares redeemed	1,217
Accrued investment advisory fees	401
Accrued supervisory and administrative fees	401
Accrued distribution fees	134
Accrued servicing fees	159
Other liabilities	10
Total Liabilities	619,161
Net Assets	$ 1,955,318
Net Assets Consist of:	
Paid in capital	$ 1,960,693
Undistributed net investment income	33,850
Accumulated undistributed net realized (loss)	(42,184)
Net unrealized appreciation	2,959
	$ 1,955,318
Net Assets:	
Institutional Class	$ 7,665
Administrative Class	1,289,355
Advisor Class	658,298
Shares Issued and Outstanding:	
Institutional Class	725
Administrative Class	121,966
Advisor Class	62,272
Net Asset Value and Redemption Price Per Share Outstanding:	
Institutional Class	$ 10.57
Administrative Class	10.57
Advisor Class	10.57
Cost of Investments in securities	$ 2,236,592
Cost of Investments in Affiliates	$ 22,041
Cost of Foreign Currency Held	$ 3,419
Proceeds Received on Short Sales	$ 4,197
Cost or Premiums of Financial Derivative Instruments, net	$ 114
* Includes repurchase agreements of:	$ 2,754

~ A portion of the balance may represent to-be-announced (TBA) securities. See Note 4 in the Notes to Financial Statements.

Statement of Operations PIMCO Low Duration Portfolio

(Unaudited)

(Amounts in thousands)	Six Months Ended June 30, 2015
Investment Income:	
Interest	$ 19,190
Dividends from Investments in Affiliates	96
Total Income	19,286
Expenses:	
Investment advisory fees	2,534
Supervisory and administrative fees	2,535
Servicing fees - Administrative Class	1,031
Distribution and/or servicing fees - Advisor Class	802
Trustee fees	14
Interest expense	77
Miscellaneous expense	3
Total Expenses	6,996
Net Investment Income	12,290
Net Realized Gain (Loss):	
Investments in securities	(52,350)
Investments in Affiliates	(869)
Exchange-traded or centrally cleared financial derivative instruments	(5,827)
Over the counter financial derivative instruments	37,357
Foreign currency	1,815
Net Realized (Loss)	(19,874)
Net Change in Unrealized Appreciation (Depreciation):	
Investments in securities	20,921
Investments in Affiliates	950
Exchange-traded or centrally cleared financial derivative instruments	1,227
Over the counter financial derivative instruments	(718)
Foreign currency assets and liabilities	12
Net Change in Unrealized Appreciation	22,392
Net Increase in Net Assets Resulting from Operations	$ 14,808

Statements of Changes in Net Assets PIMCO Low Duration Portfolio

(Amounts in thousands†)	Six Months Ended June 30, 2015 (Unaudited)	Year Ended December 31, 2014
Increase (Decrease) in Net Assets from:		
Operations:		
Net investment income	$ 12,290	$ 19,646
Net realized gain (loss)	(19,874)	20,561
Net change in unrealized appreciation	22,392	(21,423)
Net Increase in Net Assets Resulting from Operations	14,808	18,784
Distributions to Shareholders:		
From net investment income		
Institutional Class	(87)	(607)
Administrative Class	(10,968)	(17,615)
Advisor Class	(4,934)	(6,660)
Total Distributions	(15,989)	(24,882)
Portfolio Share Transactions:		
Net (decrease) resulting from Portfolio share transactions**	(186,164)	(37,311)
Total (Decrease) in Net Assets	(187,345)	(43,409)
Net Assets:		
Beginning of period	2,142,663	2,186,072
End of period*	$ 1,955,318	$ 2,142,663
* Including undistributed net investment income of:	$ 33,850	$ 37,549

† A zero balance may reflect actual amounts rounding to less than one thousand.
**See Note 12 in the Notes to Financial Statements.

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
INVESTMENTS IN SECURITIES 113.3%		
BANK LOAN OBLIGATIONS 1.1%		
Chrysler Group LLC		
3.500% due 05/24/2017	$ 2,969	$ 2,970
H.J. Heinz Co.		
3.250% due 06/05/2020	15,215	15,236
HCA, Inc.		
2.937% due 03/31/2017	2,970	2,972
Total Bank Loan Obligations (Cost $21,155)		**21,178**
CORPORATE BONDS & NOTES 48.0%		
BANKING & FINANCE 28.8%		
ABN AMRO Bank NV		
1.800% due 06/04/2018	4,300	4,302
AerCap Ireland Capital Ltd.		
2.750% due 05/15/2017	3,800	3,786
Ally Financial, Inc.		
2.750% due 01/30/2017	6,360	6,347
3.125% due 01/15/2016	2,200	2,211
3.250% due 02/13/2018	3,300	3,283
3.500% due 07/18/2016	3,400	3,459
6.250% due 12/01/2017	2,000	2,140
American Tower Corp.		
2.800% due 06/01/2020	7,400	7,299
Banco Mercantil del Norte S.A.		
4.375% due 07/19/2015	1,600	1,601
Banco Popolare SC		
3.500% due 03/14/2019	EUR 9,700	11,114
Banco Santander Chile		
3.750% due 09/22/2015	$ 2,900	2,912
Bank of America Corp.		
1.046% due 09/15/2026	900	829
1.500% due 10/09/2015	1,800	1,804
2.650% due 04/01/2019	1,200	1,214
4.750% due 08/01/2015	4,526	4,539
5.650% due 05/01/2018	2,300	2,527
6.500% due 08/01/2016	6,500	6,858
6.875% due 11/15/2018	2,700	3,099
Bank of America N.A.		
0.586% due 06/15/2017	23,900	23,731
0.745% due 11/14/2016	3,900	3,903
Bankia S.A.		
0.198% due 01/25/2016	EUR 2,000	2,229
BB&T Corp.		
0.990% due 01/15/2020	$ 5,100	5,093
BBVA Bancomer S.A.		
4.500% due 03/10/2016	6,100	6,243
BBVA U.S. Senior S.A.U.		
4.664% due 10/09/2015	2,500	2,524
Bear Stearns Cos. LLC		
6.400% due 10/02/2017	1,100	1,211
BPCE S.A.		
0.846% due 11/18/2016	500	501
0.891% due 06/23/2017	400	400
1.371% due 03/06/2017	GBP 2,300	3,630
1.625% due 02/10/2017	$ 2,100	2,120
Caterpillar Financial Services Corp.		
2.250% due 12/01/2019	1,300	1,311
CIT Group, Inc.		
4.250% due 08/15/2017	7,100	7,224
5.000% due 05/15/2017	9,700	10,027
Citigroup, Inc.		
0.967% due 04/27/2018	18,200	18,157
1.237% due 07/25/2016	15,400	15,448
1.350% due 03/10/2017	2,500	2,498
Credit Agricole S.A.		
1.252% due 06/10/2020	$ 11,700	$ 11,707
Dexia Credit Local S.A.		
0.656% due 11/07/2016	4,500	4,513
Eksportfinans ASA		
1.570% due 02/14/2018	JPY 500,000	3,968
2.000% due 09/15/2015	$ 1,100	1,101
2.375% due 05/25/2016	6,000	6,015
5.500% due 05/25/2016	5,700	5,871
5.500% due 06/26/2017	3,000	3,187
First Horizon National Corp.		
5.375% due 12/15/2015	900	914
Ford Motor Credit Co. LLC		
0.726% due 11/08/2016	7,500	7,485
1.186% due 06/15/2018	6,000	6,008
1.209% due 11/04/2019	5,500	5,487
1.700% due 05/09/2016	2,100	2,103
2.375% due 01/16/2018	3,475	3,508
3.000% due 06/12/2017	2,700	2,763
5.625% due 09/15/2015	1,600	1,615
5.750% due 02/01/2021	600	674
8.000% due 12/15/2016	2,600	2,834
General Motors Financial Co., Inc.		
1.631% due 04/10/2018	4,600	4,638
1.835% due 01/15/2020	3,900	3,904
2.750% due 05/15/2016	5,000	5,061
3.000% due 09/25/2017	5,000	5,109
4.750% due 08/15/2017	2,000	2,112
Goldman Sachs Group, Inc.		
1.374% due 11/15/2018	1,292	1,305
1.437% due 04/23/2020	20,000	20,219
1.478% due 04/30/2018	5,200	5,258
1.884% due 11/29/2023	1,700	1,731
6.000% due 06/15/2020	2,000	2,285
7.500% due 02/15/2019	600	705
Hana Bank		
4.000% due 11/03/2016	1,600	1,657
Harley-Davidson Financial Services, Inc.		
2.700% due 03/15/2017	400	409
HBOS PLC		
0.982% due 09/30/2016	4,155	4,155
HSBC Bank PLC		
0.914% due 05/15/2018	500	502
HSBC Finance Corp.		
0.713% due 06/01/2016	7,000	6,990
HSBC USA, Inc.		
0.887% due 11/13/2019	12,900	12,863
2.375% due 11/13/2019	3,800	3,788
Hutchison Whampoa International Ltd.		
1.625% due 10/31/2017	7,000	6,985
Industrial Bank of Korea		
2.375% due 07/17/2017	2,200	2,237
3.750% due 09/29/2016	3,400	3,505
International Lease Finance Corp.		
2.236% due 06/15/2016	5,500	5,507
5.750% due 05/15/2016	3,535	3,628
6.250% due 05/15/2019	2,250	2,438
8.625% due 09/15/2015	10,500	10,644
Intesa Sanpaolo SpA		
2.375% due 01/13/2017	5,900	5,931
3.125% due 01/15/2016	9,645	9,720
JPMorgan Chase & Co.		
0.726% due 11/18/2016	5,800	5,804
0.793% due 03/01/2018	3,000	2,993
1.068% due 05/30/2017	GBP 6,300	9,775
1.232% due 01/23/2020	$ 4,500	4,546
JPMorgan Chase Bank N.A.		
6.000% due 10/01/2017	$ 1,000	$ 1,091
Kookmin Bank		
1.152% due 01/27/2017	10,000	10,054
LeasePlan Corp. NV		
2.500% due 05/16/2018	300	300
3.000% due 10/23/2017	1,200	1,225
Lloyds Bank PLC		
0.825% due 05/14/2018	8,000	8,017
Metropolitan Life Global Funding		
1.300% due 04/10/2017	3,600	3,609
MUFG Americas Holdings Corp.		
0.849% due 02/09/2018	3,500	3,507
MUFG Union Bank N.A.		
0.679% due 05/05/2017	6,600	6,593
Navient Corp.		
6.000% due 01/25/2017	1,000	1,042
6.250% due 01/25/2016	1,407	1,437
8.780% due 09/15/2016	MXN 49,700	3,213
Nordea Bank AB		
0.643% due 04/04/2017	$ 4,900	4,906
Novo Banco S.A.		
2.625% due 05/08/2017	EUR 3,500	3,809
5.875% due 11/09/2015	6,900	7,712
Pacific Life Global Funding		
2.080% due 06/02/2018	$ 3,500	3,402
Pricoa Global Funding		
1.350% due 08/18/2017	23,600	23,531
Prudential Covered Trust		
2.997% due 09/30/2015	2,310	2,322
Qatari Diar Finance Co.		
3.500% due 07/21/2015	4,300	4,302
QNB Finance Ltd.		
3.125% due 11/16/2015	9,200	9,273
Rabobank Group		
0.562% due 11/23/2016	3,300	3,303
Santander Bank N.A.		
1.206% due 01/12/2018	6,200	6,198
Shinhan Bank		
0.924% due 04/08/2017	13,600	13,594
Springleaf Finance Corp.		
6.500% due 09/15/2017	4,900	5,151
Sumitomo Mitsui Banking Corp.		
0.856% due 01/16/2018	12,300	12,307
Synchrony Financial		
1.509% due 02/03/2020	5,600	5,631
U.S. Bank N.A.		
2.282% due 04/29/2020	3,000	3,006
UBS AG		
0.843% due 06/01/2017	6,500	6,486
Wachovia Corp.		
0.645% due 10/15/2016	5,000	4,984
WEA Finance LLC		
1.750% due 09/15/2017	1,000	1,003
		562,739
INDUSTRIALS 12.7%		
Actavis Funding SCS		
1.368% due 03/12/2018	1,700	1,708
1.543% due 03/12/2020	5,300	5,365
2.450% due 06/15/2019	300	299
Actavis, Inc.		
1.875% due 10/01/2017	2,800	2,804
Amgen, Inc.		
2.125% due 05/15/2017	3,695	3,754
2.200% due 05/22/2019	2,700	2,693
2.500% due 11/15/2016	2,400	2,445

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Anglo American Capital PLC		
2.625% due 04/03/2017	$ 200	$ 201
Barrick Gold Corp.		
6.950% due 04/01/2019	300	348
BAT International Finance PLC		
0.796% due 06/15/2018	9,200	9,201
1.850% due 06/15/2018	1,600	1,604
Becton Dickinson and Co.		
0.736% due 06/15/2016	10,500	10,507
1.800% due 12/15/2017	2,100	2,101
2.675% due 12/15/2019	900	900
Boston Scientific Corp.		
2.850% due 05/15/2020	1,300	1,299
5.125% due 01/12/2017	1,500	1,580
Canadian Natural Resources Ltd.		
0.657% due 03/30/2016	1,100	1,098
1.750% due 01/15/2018	1,200	1,192
Cardinal Health, Inc.		
1.950% due 06/15/2018	1,000	1,002
CNPC General Capital Ltd.		
1.450% due 04/16/2016	3,400	3,407
Colorado Interstate Gas Co. LLC		
6.800% due 11/15/2015	400	409
ConocoPhillips Co.		
1.176% due 05/15/2022	3,500	3,531
Cox Communications, Inc.		
9.375% due 01/15/2019	400	488
Daimler Finance North America LLC		
0.632% due 03/10/2017	11,400	11,400
0.704% due 03/02/2018	2,700	2,697
2.375% due 08/01/2018	900	912
DISH DBS Corp.		
4.625% due 07/15/2017	4,700	4,853
Dominion Gas Holdings LLC		
2.500% due 12/15/2019	2,300	2,325
Florida Gas Transmission Co. LLC		
4.000% due 07/15/2015	1,700	1,701
Freeport-McMoRan, Inc.		
2.300% due 11/14/2017	1,400	1,398
General Mills, Inc.		
0.579% due 01/29/2016	8,900	8,901
Georgia-Pacific LLC		
2.539% due 11/15/2019	4,400	4,397
5.400% due 11/01/2020	2,400	2,680
Gilead Sciences, Inc.		
2.350% due 02/01/2020	800	803
Hellenic Railways Organization S.A.		
4.028% due 03/17/2017	EUR 1,300	775
4.500% due 12/06/2016	JPY 29,000	134
HJ Heinz Co.		
2.000% due 07/02/2018 (a)	$ 2,300	2,300
Humana, Inc.		
7.200% due 06/15/2018	1,200	1,381
Hyundai Capital America		
1.450% due 02/06/2017	950	947
1.875% due 08/09/2016	300	302
Imperial Tobacco Finance PLC		
2.050% due 02/11/2018	1,250	1,244
Kinder Morgan Energy Partners LP		
2.650% due 02/01/2019	500	496
9.000% due 02/01/2019	300	360
Kinder Morgan, Inc.		
3.050% due 12/01/2019	4,000	3,996
7.000% due 06/15/2017	1,500	1,632
7.250% due 06/01/2018	400	451
KLA-Tencor Corp.		
2.375% due 11/01/2017	500	504
3.375% due 11/01/2019	$ 150	$ 154
Korea National Oil Corp.		
4.000% due 10/27/2016	7,200	7,461
Kroger Co.		
0.804% due 10/17/2016	5,600	5,604
Medtronic, Inc.		
1.086% due 03/15/2020	6,300	6,370
1.375% due 04/01/2018	2,900	2,888
Merck & Co., Inc.		
0.654% due 02/10/2020	5,700	5,677
Merck Sharp & Dohme Corp.		
5.000% due 06/30/2019	1,400	1,559
MGM Resorts International		
6.625% due 07/15/2015	2,700	2,703
6.875% due 04/01/2016	500	519
7.500% due 06/01/2016	7,700	8,047
10.000% due 11/01/2016	400	436
Mylan, Inc.		
2.550% due 03/28/2019	2,100	2,082
NBCUniversal Enterprise, Inc.		
0.812% due 04/15/2016	100	100
Nissan Motor Acceptance Corp.		
1.000% due 03/15/2016	800	802
1.800% due 03/15/2018	200	200
1.950% due 09/12/2017	400	403
2.350% due 03/04/2019	200	202
Pearson Dollar Finance PLC		
6.250% due 05/06/2018	600	663
Pioneer Natural Resources Co.		
6.875% due 05/01/2018	300	337
QUALCOMM, Inc.		
3.000% due 05/20/2022	4,600	4,580
Reynolds American, Inc.		
2.300% due 06/12/2018	1,800	1,815
Rock-Tenn Co.		
4.450% due 03/01/2019	400	425
SABMiller Holdings, Inc.		
2.200% due 08/01/2018	1,300	1,315
2.450% due 01/15/2017	500	508
3.750% due 01/15/2022	200	207
SABMiller PLC		
6.500% due 07/15/2018	300	339
Sinopec Group Overseas Development Ltd.		
2.750% due 05/17/2017	6,000	6,108
Southern Natural Gas Co. LLC		
5.900% due 04/01/2017	300	320
Southwest Airlines Co.		
2.750% due 11/06/2019	6,300	6,393
Southwestern Energy Co.		
3.300% due 01/23/2018	700	718
4.050% due 01/23/2020	2,800	2,878
Telefonica Emisiones S.A.U.		
0.931% due 06/23/2017	13,000	12,972
5.375% due 02/02/2018	GBP 1,300	2,208
6.421% due 06/20/2016	$ 1,600	1,673
Thermo Fisher Scientific, Inc.		
1.300% due 02/01/2017	6,600	6,591
Time Warner Cable, Inc.		
5.850% due 05/01/2017	700	748
6.750% due 07/01/2018	1,800	2,007
8.750% due 02/14/2019	1,100	1,307
Time Warner, Inc.		
3.150% due 07/15/2015	11,600	11,612
UnitedHealth Group, Inc.		
1.400% due 12/15/2017	1,000	998
Volkswagen Group of America Finance LLC		
0.716% due 11/20/2017	7,500	7,516
2.450% due 11/20/2019	$ 4,200	$ 4,215
Volkswagen International Finance NV		
2.125% due 11/20/2018	1,700	1,714
Walgreens Boots Alliance, Inc.		
0.726% due 05/18/2016	4,500	4,500
1.750% due 11/17/2017	1,700	1,707
Whirlpool Corp.		
1.650% due 11/01/2017	1,100	1,104
Woodside Finance Ltd.		
3.650% due 03/05/2025	950	913
		248,123
UTILITIES 6.5%		
AES Corp.		
3.283% due 06/01/2019	600	602
AT&T, Inc.		
0.702% due 03/30/2017	6,800	6,779
1.212% due 06/30/2020	12,300	12,363
2.950% due 05/15/2016	900	915
3.000% due 06/30/2022	2,200	2,125
Centrais Eletricas Brasileiras S.A.		
6.875% due 07/30/2019	700	715
Consumers Energy Co.		
6.700% due 09/15/2019	200	235
Dayton Power & Light Co.		
1.875% due 09/15/2016	1,000	1,006
DTE Energy Co.		
2.400% due 12/01/2019	3,700	3,701
Electricite de France S.A.		
6.500% due 01/26/2019	100	115
Exelon Corp.		
1.550% due 06/09/2017	900	901
Kinder Morgan Finance Co. LLC		
6.000% due 01/15/2018	1,500	1,625
KT Corp.		
1.750% due 04/22/2017	3,700	3,700
Ooredoo International Finance Ltd.		
3.375% due 10/14/2016	2,300	2,359
Orange S.A.		
2.750% due 09/14/2016	2,500	2,546
Petrobras Global Finance BV		
1.896% due 05/20/2016	700	691
2.000% due 05/20/2016	2,000	1,981
2.643% due 03/17/2017	6,400	6,283
3.250% due 03/17/2017	1,500	1,480
3.500% due 02/06/2017	1,200	1,190
4.875% due 03/17/2020	4,400	4,195
5.750% due 01/20/2020	2,000	1,987
7.875% due 03/15/2019	2,200	2,342
Plains All American Pipeline LP		
8.750% due 05/01/2019	700	855
Sinopec Group Overseas Development Ltd.		
1.191% due 04/10/2019	11,000	10,990
Sprint Communications, Inc.		
9.125% due 03/01/2017	14,800	16,058
Verizon Communications, Inc.		
0.681% due 06/09/2017	7,000	6,987
1.816% due 09/15/2016	6,194	6,272
2.036% due 09/14/2018	15,800	16,358
2.500% due 09/15/2016	8,641	8,783
2.625% due 02/21/2020	900	898
3.650% due 09/14/2018	100	105
		127,142
Total Corporate Bonds & Notes (Cost $943,885)		**938,004**

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
MUNICIPAL BONDS & NOTES 1.0%		
CALIFORNIA 0.5%		
University of California Revenue Bonds, Series 2011		
0.684% due 07/01/2041	$ 10,600	$ 10,606
NEW JERSEY 0.5%		
New Jersey Economic Development Authority Revenue Notes, Series 2014		
1.096% due 06/15/2016	9,525	9,474
TEXAS 0.0%		
North Texas Higher Education Authority, Inc. Revenue Bonds, Series 2011		
1.374% due 04/01/2040	359	363
Total Municipal Bonds & Notes (Cost $20,493)		**20,443**
U.S. GOVERNMENT AGENCIES 12.1%		
Fannie Mae		
0.247% due 12/25/2036 - 07/25/2037	629	595
0.537% due 09/25/2042 - 03/25/2044	438	436
0.687% due 12/25/2022	57	57
0.987% due 04/25/2023	60	62
1.000% due 01/25/2043	514	498
1.037% due 02/25/2023	3	3
1.085% due 06/17/2027	33	34
1.087% due 05/25/2022	6	6
1.346% due 07/01/2042 - 06/01/2043	342	351
1.396% due 09/01/2041	228	234
1.546% due 09/01/2040	1	1
1.955% due 11/01/2035	56	59
2.032% due 09/01/2035	397	422
2.151% due 07/01/2035	61	65
4.000% due 08/01/2045	162,000	171,046
4.350% due 12/01/2036	19	20
4.500% due 03/01/2018 - 09/01/2045	31,048	33,316
4.533% due 09/01/2034	12	13
5.000% due 05/01/2027 - 07/01/2045	384	423
5.500% due 12/01/2027 - 12/01/2028	965	1,083
5.792% due 12/25/2042	8	9
6.000% due 03/01/2017 - 01/01/2039	4,072	4,667
6.500% due 04/01/2036	119	137
FDIC Structured Sale Guaranteed Notes		
2.980% due 12/06/2020	1,643	1,683
Federal Housing Administration		
7.430% due 10/01/2020	1	1
Freddie Mac		
0.227% due 12/25/2036	828	826
0.447% due 08/25/2031	143	140
0.586% due 06/15/2018	11	11
1.346% due 02/25/2045	294	299
2.000% due 11/15/2026	10,838	11,008
2.271% due 09/01/2035	396	423
2.348% due 07/01/2035	136	145
5.000% due 05/01/2024 - 12/01/2041	652	722
5.500% due 12/01/2022 - 08/15/2030	1	1
6.500% due 07/25/2043	61	71

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
9.383% due 08/15/2044		$ 5,749	$ 6,587
Ginnie Mae			
1.930% due 02/20/2041		1,136	1,144
6.000% due 09/15/2017		338	349
Small Business Administration			
5.600% due 09/01/2028		489	543
Total U.S. Government Agencies (Cost $236,887)			**237,490**
U.S. TREASURY OBLIGATIONS 17.4%			
U.S. Treasury Inflation Protected Securities (e)			
0.125% due 04/15/2018 (g)		172,776	175,394
0.125% due 04/15/2019 (g)(i)		117,195	118,614
0.625% due 07/15/2021		22,463	23,178
0.750% due 02/15/2042 (k)		1,885	1,721
1.125% due 01/15/2021		10,274	10,864
1.250% due 07/15/2020		4,122	4,409
1.375% due 02/15/2044		5,786	6,132
Total U.S. Treasury Obligations (Cost $341,514)			**340,312**
MORTGAGE-BACKED SECURITIES 9.0%			
ACAEC Trust			
0.287% due 06/15/2024	EUR	19	21
Adjustable Rate Mortgage Trust			
2.758% due 09/25/2035	$	1,072	948
Alba PLC			
2.821% due 12/16/2042	GBP	1,353	2,137
American Home Mortgage Investment Trust			
2.069% due 10/25/2034	$	244	245
2.423% due 02/25/2045		160	160
Banc of America Commercial Mortgage Trust			
5.617% due 07/10/2046		2,087	2,164
5.634% due 04/10/2049		59	59
5.732% due 04/10/2049		2,517	2,662
Banc of America Funding Trust			
0.467% due 07/25/2037		1,165	1,017
2.933% due 01/20/2047 ^		471	401
Banc of America Mortgage Trust			
2.686% due 08/25/2034		2,320	2,293
2.717% due 07/25/2034		751	761
2.782% due 05/25/2033		437	442
6.500% due 10/25/2031		6	7
BCAP LLC Trust			
0.355% due 09/26/2035		519	515
Bear Stearns Adjustable Rate Mortgage Trust			
2.260% due 08/25/2035		1,191	1,199
2.511% due 04/25/2033		5	5
2.515% due 03/25/2035		1,378	1,384
2.522% due 01/25/2035		195	188
2.595% due 02/25/2033		1	1
2.724% due 01/25/2034		24	24
2.738% due 01/25/2035		3,718	3,642
2.973% due 07/25/2034		321	313
Bear Stearns ALT-A Trust			
0.347% due 02/25/2034		465	426
Bear Stearns Commercial Mortgage Securities Trust			
5.331% due 02/11/2044		339	356
Bear Stearns Structured Products, Inc. Trust			
2.331% due 12/26/2046		603	462
2.577% due 01/26/2036		1,085	877
Chevy Chase Funding LLC Mortgage-Backed Certificates			
0.467% due 01/25/2035		77	70
Citigroup Commercial Mortgage Trust			
6.349% due 12/10/2049		826	891

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Citigroup Mortgage Loan Trust, Inc.			
2.633% due 08/25/2035 ^	$	733	$ 537
2.660% due 05/25/2035		182	181
Citigroup/Deutsche Bank Commercial Mortgage Trust			
5.289% due 12/11/2049		15,803	16,559
5.481% due 01/15/2046		3,422	3,472
Countrywide Alternative Loan Trust			
0.367% due 05/25/2047		579	493
6.000% due 10/25/2033		13	14
Countrywide Home Loan Mortgage Pass-Through Trust			
2.330% due 02/20/2036		570	494
2.428% due 11/20/2034		1,324	1,277
2.429% due 11/25/2034		657	625
2.494% due 02/20/2035		1,000	990
Credit Suisse Commercial Mortgage Trust			
5.297% due 12/15/2039		3,626	3,786
5.448% due 01/15/2049		10	10
5.860% due 03/15/2039		13,327	13,628
6.000% due 06/15/2038		5,012	5,136
Credit Suisse First Boston Mortgage Securities Corp.			
0.804% due 03/25/2032		1	1
Credit Suisse Mortgage Capital Certificates			
2.569% due 09/26/2047		594	586
2.580% due 09/27/2036		5,038	5,059
DBRR Trust			
0.853% due 02/25/2045		78	78
Deco Pan Europe Ltd.			
0.208% due 04/27/2018	EUR	629	693
Deutsche Mortgage Securities, Inc. Re-REMIC Trust Certificates			
2.740% due 06/26/2035	$	330	329
Eurosail PLC			
0.147% due 12/10/2044	EUR	180	192
1.271% due 09/13/2045	GBP	1,171	1,805
1.521% due 06/13/2045		9,300	14,367
Extended Stay America Trust			
2.958% due 12/05/2031	$	500	502
First Horizon Alternative Mortgage Securities Trust			
2.196% due 09/25/2034		1,358	1,332
First Horizon Mortgage Pass-Through Trust			
2.625% due 02/25/2035		2,268	2,270
2.677% due 08/25/2035		398	363
Fosse Master Issuer PLC			
2.669% due 10/18/2054	GBP	300	473
GE Commercial Mortgage Corp. Trust			
5.483% due 12/10/2049	$	6,949	7,352
GMAC Mortgage Corp. Loan Trust			
2.739% due 11/19/2035		238	213
Granite Master Issuer PLC			
0.327% due 12/20/2054		1,927	1,918
0.387% due 12/20/2054		299	298
0.830% due 12/20/2054	GBP	312	490
Granite Mortgages PLC			
0.382% due 01/20/2044	EUR	44	49
0.949% due 01/20/2044	GBP	38	59
0.952% due 09/20/2044		234	366
Great Hall Mortgages PLC			
0.416% due 06/18/2039	$	2,299	2,166
Greenwich Capital Commercial Funding Corp.			
5.444% due 03/10/2039		1,722	1,812
GS Mortgage Securities Trust			
5.560% due 11/10/2039		2,281	2,366
GSR Mortgage Loan Trust			
2.592% due 09/25/2034		167	159
2.682% due 09/25/2035		798	802
HarborView Mortgage Loan Trust			
0.408% due 05/19/2035		128	107
2.669% due 07/19/2035		677	609

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Hercules Eclipse PLC			
0.811% due 10/25/2018	GBP	3,771	$ 5,819
Hilton USA Trust			
1.185% due 11/05/2030	$	1,971	1,971
Impac CMB Trust			
1.187% due 07/25/2033		175	169
Indus Eclipse PLC			
0.741% due 01/25/2020	GBP	2,320	3,605
Infinity Classico			
0.181% due 02/15/2024	EUR	846	927
JPMorgan Chase Commercial Mortgage Securities Trust			
5.257% due 05/15/2047	$	3,144	3,255
5.397% due 05/15/2045		531	550
5.420% due 01/15/2049		560	586
5.882% due 02/15/2051		1,300	1,384
JPMorgan Commercial Mortgage-Backed Securities Trust			
5.708% due 03/18/2051		2,242	2,338
JPMorgan Mortgage Trust			
5.750% due 01/25/2036 ^		31	28
Juno Eclipse Ltd.			
0.169% due 11/20/2022	EUR	1,941	2,124
LB-UBS Commercial Mortgage Trust			
5.342% due 09/15/2039	$	1,419	1,476
MASTR Asset Securitization Trust			
5.500% due 09/25/2033		7	7
Merrill Lynch Mortgage Investors Trust			
0.437% due 11/25/2035		250	238
0.847% due 09/25/2029		1,323	1,320
1.184% due 10/25/2035		155	148
1.937% due 01/25/2029		2	2
Merrill Lynch/Countrywide Commercial Mortgage Trust			
5.485% due 03/12/2051		2,700	2,855
Morgan Stanley Capital Trust			
5.601% due 03/12/2044		1,950	1,963
Prime Mortgage Trust			
0.587% due 02/25/2034		10	9
Residential Funding Mortgage Securities, Inc. Trust			
2.995% due 09/25/2035 ^		1,089	873
Salomon Brothers Mortgage Securities, Inc.			
7.000% due 12/25/2018		10	11
Structured Adjustable Rate Mortgage Loan Trust			
1.574% due 01/25/2035		300	242
2.496% due 08/25/2034		501	499
2.629% due 08/25/2035		292	278
2.637% due 02/25/2034		342	341
Structured Asset Mortgage Investments Trust			
0.467% due 02/25/2036		184	151
0.848% due 09/19/2032		4	4
Structured Asset Securities Corp. Trust			
2.652% due 10/28/2035		77	75
Ulysses European Loan Conduit PLC			
0.731% due 07/25/2017	GBP	2,700	4,149
Vulcan European Loan Conduit Ltd.			
0.271% due 05/15/2017	EUR	337	372
Wachovia Bank Commercial Mortgage Trust			
0.210% due 04/15/2047	$	9,800	9,651
5.421% due 04/15/2047		126	126
5.749% due 07/15/2045		1,189	1,231
WaMu Mortgage Pass-Through Certificates Trust			
0.457% due 12/25/2045		145	140
0.527% due 01/25/2045		1,005	949
0.888% due 01/25/2047		353	322
1.358% due 11/25/2042		56	53
1.558% due 06/25/2042		35	34
1.558% due 08/25/2042		133	127
Washington Mutual Mortgage Loan Trust			
1.342% due 05/25/2041	$	11	$ 11
Wells Fargo Mortgage-Backed Securities Trust			
2.614% due 03/25/2035		321	326
2.615% due 12/25/2034		370	365
2.616% due 01/25/2035		437	442
2.621% due 03/25/2036		431	430
2.717% due 09/25/2034		6,629	6,796
Total Mortgage-Backed Securities (Cost $178,862)			**176,460**

ASSET-BACKED SECURITIES 13.9%

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
ACE Securities Corp Home Equity Loan Trust			
0.247% due 10/25/2036		114	64
1.087% due 12/25/2034		1,518	1,391
Ally Auto Receivables Trust			
0.680% due 07/17/2017		7,943	7,942
Ameriquest Mortgage Securities, Inc. Asset-Backed Pass-Through Certificates			
0.687% due 09/25/2035		7,100	6,394
Amortizing Residential Collateral Trust			
0.767% due 07/25/2032		13	12
Ares European CLO BV			
0.338% due 08/15/2024	EUR	1,968	2,183
Asset-Backed Funding Certificates Trust			
0.862% due 06/25/2035	$	10,799	10,343
Asset-Backed Securities Corp. Home Equity Loan Trust			
0.737% due 09/25/2034		54	54
1.836% due 03/15/2032		126	121
Atrium CDO Corp.			
1.376% due 11/16/2022		3,911	3,916
Avoca CLO PLC			
0.372% due 01/16/2023	EUR	637	710
Bacchus Ltd.			
0.515% due 01/20/2019	$	178	178
Bear Stearns Asset-Backed Securities Trust			
1.187% due 10/25/2037		2,317	2,192
Cadogan Square CLO BV			
0.360% due 08/12/2022	EUR	1,208	1,344
0.391% due 01/17/2023		1,633	1,803
Carlyle Global Market Strategies CLO LLC			
1.505% due 04/20/2022	$	5,200	5,200
Carlyle High Yield Partners Ltd.			
0.500% due 04/19/2022		875	857
Cavalry CLO Ltd.			
1.645% due 01/16/2024		10,200	10,189
Celf Loan Partners PLC			
0.429% due 12/15/2021	EUR	1,500	1,651
CIFC Funding Ltd.			
1.575% due 01/19/2023	$	8,614	8,627
1.634% due 12/05/2024		4,800	4,800
Citigroup Mortgage Loan Trust, Inc.			
0.667% due 09/25/2035 ^		6,200	5,888
Countrywide Asset-Backed Certificates			
0.367% due 09/25/2036		2,854	2,819
0.667% due 12/25/2031		33	25
0.887% due 12/25/2033		1,705	1,634
0.987% due 03/25/2033		1,305	1,211
Countrywide Asset-Backed Certificates Trust			
0.445% due 05/25/2036		19	20
Credit Suisse First Boston Mortgage Securities Corp.			
0.805% due 01/25/2032		7	7
Doral CLO Ltd.			
1.531% due 05/26/2023		8,100	8,101
Duane Street CLO Ltd.			
0.505% due 11/14/2021		551	543
Educational Services of America, Inc.			
1.337% due 09/25/2040	$	2,053	$ 2,074
Elm CLO Ltd.			
1.674% due 01/17/2023		7,978	7,992
Equity One Mortgage Pass-Through Trust			
0.747% due 11/25/2032		4	4
First Franklin Mortgage Loan Trust			
0.667% due 05/25/2035		300	280
Fortress Credit Investments Ltd.			
1.574% due 07/17/2023		4,900	4,894
Four Corners CLO Ltd.			
0.551% due 01/26/2020		1,426	1,422
Franklin CLO Ltd.			
0.546% due 06/15/2018		1,028	1,024
Fraser Sullivan CLO Ltd.			
1.575% due 04/20/2023		4,800	4,800
Galaxy CLO Ltd.			
1.566% due 08/20/2022		1,100	1,099
GE-WMC Mortgage Securities Trust			
0.227% due 08/25/2036		16	9
Goldentree Loan Opportunities Ltd.			
0.970% due 10/18/2021		975	974
GSAMP Trust			
0.577% due 01/25/2036		1,067	890
Halcyon Structured Asset Management European CLO BV			
0.381% due 01/25/2023	EUR	1,033	1,149
Highbridge Loan Management Ltd.			
1.436% due 09/20/2022	$	5,500	5,483
Hyde Park CDO BV			
0.299% due 06/14/2022	EUR	71	79
Inwood Park CDO Ltd.			
0.500% due 01/20/2021	$	3,175	3,174
JPMorgan Mortgage Acquisition Corp.			
0.367% due 02/25/2036		779	750
0.417% due 05/25/2035		8,686	8,477
Jubilee CDO BV			
0.365% due 08/21/2021	EUR	470	521
0.828% due 10/15/2019		1,582	1,764
LCM LP			
1.477% due 07/14/2022	$	4,467	4,468
1.540% due 10/19/2022		5,100	5,098
Leopard CLO BV			
0.346% due 07/24/2023	EUR	4,126	4,577
Lockwood Grove CLO Ltd.			
1.622% due 01/25/2024	$	5,400	5,394
Madison Park Funding Ltd.			
1.536% due 06/15/2022		756	757
Massachusetts Educational Financing Authority			
1.227% due 04/25/2038		624	623
Mercator CLO PLC			
0.226% due 02/18/2024	EUR	1,969	2,175
Merrill Lynch Mortgage Investors Trust			
0.387% due 08/25/2036	$	287	286
Motor PLC			
0.787% due 06/25/2022		10,000	10,008
MT Wilson CLO Ltd.			
0.506% due 07/11/2020		748	747
Navient Private Education Loan Trust			
1.386% due 12/15/2028		2,100	2,126
Octagon Investment Partners Ltd.			
0.517% due 04/23/2020		1,418	1,414
Opteum Mortgage Acceptance Corp. Asset-Backed Pass-Through Certificates			
0.467% due 12/25/2035		795	716
0.497% due 04/25/2035		3,220	3,175

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Panhandle-Plains Higher Education Authority, Inc.			
1.414% due 10/01/2035	$	1,431	$ 1,455
Panther CDO BV			
0.364% due 03/20/2084	EUR	8,777	9,508
Prospero CLO BV			
0.242% due 10/20/2022		629	700
Queen Street CLO BV			
0.328% due 08/15/2024		3,527	3,932
RAAC Trust			
0.667% due 03/25/2037	$	750	727
Renaissance Home Equity Loan Trust			
0.687% due 12/25/2033		3,849	3,679
Residential Asset Securities Corp. Trust			
0.507% due 01/25/2036		5,438	5,310
1.070% due 01/25/2034		4,854	4,351
SLC Student Loan Trust			
0.386% due 09/15/2026		4,900	4,859
0.404% due 11/15/2021		12,193	12,170
SLM Private Credit Student Loan Trust			
0.466% due 03/15/2024		1,184	1,175
0.476% due 12/15/2023		718	711
SLM Private Education Loan Trust			
0.936% due 10/16/2023		1,306	1,309
1.236% due 06/15/2023		1,246	1,249
1.286% due 12/15/2021		219	219
SLM Student Loan Trust			
0.367% due 10/25/2024		4,895	4,864
1.777% due 04/25/2023		565	580
South Carolina Student Loan Corp.			
1.033% due 03/02/2020		1,761	1,768
Specialty Underwriting & Residential Finance Trust			
0.577% due 12/25/2036		4,800	3,983
SpringCastle America Funding LLC			
2.700% due 05/25/2023		8,722	8,779
Stone Tower CLO Ltd.			
0.504% due 04/17/2021		1,323	1,313
Structured Asset Investment Loan Trust			
0.892% due 03/25/2034		681	635
1.162% due 10/25/2033		1,045	1,014
Sunrise SRL			
0.488% due 08/27/2031	EUR	1,162	1,291
Symphony CLO LP			
1.576% due 04/16/2022	$	1,000	1,001
Symphony CLO Ltd.			
1.544% due 07/23/2023		4,100	4,102
Voya CLO Ltd.			
1.575% due 10/15/2022		4,800	4,799
1.615% due 10/15/2022		5,300	5,302
Wells Fargo Home Equity Asset-Backed Securities Trust			
0.447% due 05/25/2036		1,100	1,035
Wood Street CLO BV			
0.305% due 11/22/2021	EUR	378	419
Total Asset-Backed Securities (Cost $269,783)			**270,881**

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
SOVEREIGN ISSUES 8.4%			
Athens Urban Transportation Organisation			
4.851% due 09/19/2016	EUR	2,200	$ 1,337
Autonomous Community of Catalonia			
4.750% due 06/04/2018		2,700	3,256
Autonomous Community of Valencia			
4.375% due 07/16/2015		2,000	2,244
Brazil Letras do Tesouro Nacional			
0.000% due 01/01/2016 (d)	BRL	250,300	75,210
0.000% due 04/01/2016 (d)		97,700	28,411
0.000% due 01/01/2017 (d)		33,000	8,718
Export-Import Bank of Korea			
1.027% due 01/14/2017	$	4,600	4,621
1.133% due 09/17/2016		700	703
1.250% due 11/20/2015		8,700	8,708
Korea Development Bank			
0.901% due 01/22/2017		800	800
3.250% due 03/09/2016		6,300	6,394
3.250% due 09/20/2016		1,500	1,537
3.875% due 05/04/2017		1,200	1,249
Korea Housing Finance Corp.			
3.500% due 12/15/2016		1,500	1,546
Korea Land & Housing Corp.			
1.875% due 08/02/2017		500	502
Mexico Government International Bond			
4.000% due 11/15/2040 (e)	MXN	3,166	217
5.000% due 06/16/2016 (e)		6,860	458
Province of Ontario			
1.000% due 07/22/2016	$	2,800	2,813
1.100% due 10/25/2017		13,600	13,625
Republic of Germany			
2.500% due 08/15/2046	EUR	1,400	1,912
Total Sovereign Issues (Cost $177,598)			**164,261**
		SHARES	
CONVERTIBLE PREFERRED SECURITIES 0.0%			
INDUSTRIALS 0.0%			
Motors Liquidation Co.			
5.250% due 03/06/2032 (b)		4,000	0
Total Convertible Preferred Securities (Cost $0)			**0**
		PRINCIPAL AMOUNT (000S)	
SHORT-TERM INSTRUMENTS 2.4%			
CERTIFICATES OF DEPOSIT 0.9%			
Intesa Sanpaolo SpA			
1.656% due 04/11/2016	$	14,600	14,637
Itau Unibanco Holding S.A.			
1.605% due 06/21/2016		2,200	2,204
			16,841

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
COMMERCIAL PAPER 1.3%			
Ford Motor Credit Co.			
0.830% due 07/27/2015	$	1,900	$ 1,899
Kinder Morgan, Inc.			
1.250% due 07/16/2015		3,400	3,398
Tesco Treasury Services PLC			
2.750% due 08/17/2015		19,600	19,530
			24,827
REPURCHASE AGREEMENTS (f) 0.1%			
			2,754
U.S. TREASURY BILLS 0.1%			
0.006% due 09/03/2015 - 10/15/2015 (c)(g)(i)(k)		2,034	2,034
Total Short-Term Instruments (Cost $46,415)			**46,456**
Total Investments in Securities (Cost $2,236,592)			**2,215,485**
		SHARES	
INVESTMENTS IN AFFILIATES 1.1%			
SHORT-TERM INSTRUMENTS 1.1%			
CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES 1.1%			
PIMCO Short-Term Floating NAV Portfolio III		2,222,134	22,039
Total Short-Term Instruments (Cost $22,041)			**22,039**
Total Investments in Affiliates (Cost $22,041)			**22,039**
Total Investments 114.4% (Cost $2,258,633)			**$ 2,237,524**
Financial Derivative Instruments (h)(j) 1.4% (Cost or Premiums, net $114)			**28,223**
Other Assets and Liabilities, net (15.8%)			**(310,429)**
Net Assets 100.0%			**$ 1,955,318**

NOTES TO SCHEDULE OF INVESTMENTS (AMOUNTS IN THOUSANDS*, EXCEPT NUMBER OF CONTRACTS):

* A zero balance may reflect actual amounts rounding to less than one thousand.

^ Security is in default.

(a) When-issued security.

(b) Security did not produce income within the last twelve months.

(c) Coupon represents a weighted average yield to maturity.

(d) Zero coupon bond.

(e) Principal amount of security is adjusted for inflation.

BORROWINGS AND OTHER FINANCING TRANSACTIONS

(f) REPURCHASE AGREEMENTS:

Counterparty	Lending Rate	Settlement Date	Maturity Date	Principal Amount	Collateralized By	Collateral Received, at Value	Repurchase Agreements, at Value	Repurchase Agreement Proceeds to be Received (1)
SSB	0.000%	06/30/2015	07/01/2015	$ 2,754	Fannie Mae 2.200% due 10/17/2022	$ (2,812)	$ 2,754	$ 2,754
Total Repurchase Agreements						**$ (2,812)**	**$ 2,754**	**$ 2,754**

(1) Includes accrued interest.

REVERSE REPURCHASE AGREEMENTS:

Counterparty	Borrowing Rate	Borrowing Date	Maturity Date	Amount Borrowed (2)	Payable for Reverse Repurchase Agreements
BOS	0.480%	06/18/2015	07/08/2015	$ (4,461)	$ (4,462)
BSN	0.280%	05/26/2015	07/27/2015	(6,544)	(6,546)
	0.280%	05/29/2015	07/21/2015	(12,361)	(12,364)
GRE	0.420%	06/12/2015	07/02/2015	(11,165)	(11,167)
	0.490%	06/24/2015	07/08/2015	(3,528)	(3,528)
Total Reverse Repurchase Agreements					**$ (38,067)**

SALE-BUYBACK TRANSACTIONS:

Counterparty	Borrowing Rate	Borrowing Date	Maturity Date	Amount Borrowed (2)	Payable for Sale-Buyback Transactions (3)
GSC	0.370%	06/08/2015	07/08/2015	$ (7,868)	$ (7,874)
MSC	0.310%	05/21/2015	07/21/2015	(1,038)	(1,041)
	0.410%	06/11/2015	07/02/2015	(6,840)	(6,842)
TDM	0.250%	05/04/2015	08/04/2015	(14,634)	(14,708)
	0.300%	06/02/2015	07/31/2015	(5,193)	(5,213)
	0.310%	05/27/2015	07/08/2015	(7,586)	(7,593)
	0.330%	06/10/2015	08/10/2015	(13,480)	(13,542)
Total Sale-Buyback Transactions					**$ (56,813)**

(2) The average amount of borrowings outstanding during the period ended June 30, 2015 was $35,866 at a weighted average interest rate of 0.266%.
(3) Payable for sale-buyback transactions includes $148 of deferred price drop.

SHORT SALES*:

Description	Coupon	Maturity Date	Principal Amount	Proceeds	Payable for Short Sales
Fannie Mae	5.000%	07/01/2045	$ 100	$ (111)	$ (111)
Fannie Mae	5.000%	08/13/2045	100	(110)	(110)
Fannie Mae	6.000%	07/01/2045	3,000	(3,422)	(3,411)
Freddie Mac	5.000%	07/01/2045	500	(554)	(550)
Total Short Sales				**$ (4,197)**	**$ (4,182)**

* Short Sales shown are To-Be-Announced ("TBA") securities which are not subject to collateral pledging under the terms of any master agreements.

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, 2015:

(g) Securities with an aggregate market value of $95,453 have been pledged as collateral under the terms of the following master agreements as of June 30, 2015.

Counterparty	Repurchase Agreement Proceeds to be Received	Payable for Reverse Repurchase Agreements	Payable for Sale-Buyback Transactions	Total Borrowings and Other Financing Transactions	Collateral (Received)/Pledged	Net Exposure (4)
Global/Master Repurchase Agreement						
BOS	$ 0	$ (4,462)	$ 0	$ (4,462)	$ 4,468	$ 6
BSN	0	(18,910)	0	(18,910)	18,909	(1)

Counterparty	Repurchase Agreement Proceeds to be Received	Payable for Reverse Repurchase Agreements	Payable for Sale-Buyback Transactions	Total Borrowings and Other Financing Transactions	Collateral (Received)/Pledged	Net Exposure [4]
GRE	$ 0	$ (14,695)	$ 0	$ (14,695)	$ 14,753	$ 58
SSB	2,754	0	0	2,754	(2,812)	(58)
Master Securities Forward Transaction Agreement						
GSC	0	0	(7,874)	(7,874)	7,902	28
MSC	0	0	(7,883)	(7,883)	7,902	19
TDM	0	0	(41,056)	(41,056)	40,926	(130)
Total Borrowings and Other Financing Transactions	**$ 2,754**	**$ (38,067)**	**$ (56,813)**			

[4] 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.

(h) 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 June Futures	Short	06/2018	1,707	$ (552)	$ 21	$ 0
90-Day Eurodollar March Futures	Short	03/2018	967	(797)	12	0
90-Day Eurodollar September Futures	Long	09/2015	1,608	25	31	(1)
Call Options Strike @ EUR 153.500 on Euro-Bund 10-Year Bond August Futures	Short	07/2015	77	26	30	(5)
Call Options Strike @ EUR 154.000 on Euro-Bund 10-Year Bond August Futures	Short	07/2015	131	24	28	(5)
Call Options Strike @ EUR 154.500 on Euro-Bund 10-Year Bond August Futures	Short	07/2015	154	1	6	(5)
Call Options Strike @ EUR 155.000 on Euro-Bund 10-Year Bond August Futures	Short	07/2015	55	8	9	(1)
Euro-Bobl September Futures	Long	09/2015	348	125	327	0
Euro-Bund 10-Year Bond September Futures	Long	09/2015	435	(752)	1,092	0
Euro-Buxl 30-Year Bond September Futures	Long	09/2015	12	(163)	47	0
Euro-Schatz September Futures	Long	09/2015	580	25	45	0
U.S. Treasury 5-Year Note September Futures	Short	09/2015	859	126	86	0
U.S. Treasury 10-Year Note September Futures	Short	09/2015	397	110	13	0
United Kingdom 90-Day LIBOR Sterling Interest Rate June Futures	Short	06/2016	85	(22)	0	(15)
United Kingdom 90-Day LIBOR Sterling Interest Rate June Futures	Short	06/2017	1,883	296	0	(444)
United Kingdom 90-Day LIBOR Sterling Interest Rate March Futures	Short	03/2017	57	7	0	(12)
Total Futures Contracts				**$ (1,513)**	**$ 1,747**	**$ (488)**

SWAP AGREEMENTS:

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	2.000%	12/16/2019	$ 58,300	$ (445)	$ (176)	$ 15	$ 0
Receive	3-Month USD-LIBOR	2.000%	12/16/2020	251,400	87	(1,005)	75	0
Pay	3-Month USD-LIBOR	2.000%	12/16/2020	104,800	(87)	277	0	(30)
Receive	3-Month USD-LIBOR	2.750%	12/16/2045	7,600	366	(81)	20	0
Receive	6-Month GBP-LIBOR	1.500%	09/16/2017	GBP 26,200	(226)	70	0	(64)
Receive	6-Month GBP-LIBOR	1.880%	10/05/2017	8,100	(159)	40	0	(21)
Receive	6-Month GBP-LIBOR	1.837%	10/06/2017	1,300	(24)	(24)	0	(3)
Receive	6-Month GBP-LIBOR	1.500%	03/16/2018	11,400	(3)	17	0	(35)
Pay	28-Day MXN-TIIE	3.960%	05/16/2016	MXN 1,602,700	345	345	38	0
Pay	28-Day MXN-TIIE	5.250%	06/11/2018	15,300	19	(3)	2	0
Pay	28-Day MXN-TIIE	5.500%	06/11/2018	18,800	32	0	3	0
Pay	28-Day MXN-TIIE	4.955%	06/24/2019	360,000	(26)	(26)	90	0
Pay	28-Day MXN-TIIE	5.280%	10/02/2019	370,000	167	167	103	0
Pay	28-Day MXN-TIIE	5.010%	10/10/2019	354,500	(101)	(101)	100	0
Pay	28-Day MXN-TIIE	5.615%	06/02/2020	667,100	572	254	233	0
Pay	28-Day MXN-TIIE	5.575%	03/16/2022	224,800	(220)	(220)	107	0
Pay	28-Day MXN-TIIE	5.980%	08/26/2024	52,600	(69)	(7)	33	0
					$ 228	$ (473)	$ 819	$ (153)
Total Swap Agreements					**$ 228**	**$ (473)**	**$ 819**	**$ (153)**

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, 2015:

(i) Securities with an aggregate market value of $15,577 and cash of $4,854 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of June 30, 2015. 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**	**$ 1,747**	**$ 819**	**$ 2,566**	**$ 0**	**$ (488)**	**$ (153)**	**$ (641)**

(j) 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
BOA	07/2015	$	4,626	MXN	69,952	$ 0	$ (177)
BPS	07/2015	BRL	9,201	$	2,994	35	0
	07/2015	JPY	6,720,546		54,390	0	(523)
	07/2015	$	2,964	BRL	9,201	0	(5)
	07/2015		2,451	JPY	302,700	22	0
	07/2015		4,298	MXN	66,654	0	(59)
	08/2015	BRL	9,201	$	2,931	6	0
	10/2015		107,100		40,171	6,836	0
	01/2017		20,000		7,269	1,816	0
BRC	07/2015	MXN	14,789		975	34	0
CBK	07/2015	AUD	2,012		1,534	0	(18)
	07/2015	BRL	86,096		27,750	58	0
	07/2015	MXN	49,695		3,240	79	0
	07/2015	$	27,174	BRL	86,096	517	0
	07/2015		42,146	EUR	37,199	0	(675)
	07/2015		1,847	MXN	28,043	0	(64)
	08/2015		5,077	INR	329,126	59	0
	09/2015	MXN	140,468	$	8,885	4	0
	04/2016	BRL	51,347		15,205	141	0
DUB	07/2015		182,770		57,790	793	(1,788)
	07/2015	MXN	75,442		4,960	162	0
	07/2015	$	58,909	BRL	182,770	0	(123)
	07/2015		2,448	MXN	37,121	0	(87)
	08/2015	ILS	106,013	$	27,432	0	(663)
	10/2015	BRL	156,700		52,620	4,981	(1,135)
	10/2015	$	52,257	BRL	173,400	1,714	0
FBF	07/2015	MXN	35,996	$	2,342	53	0
	08/2015	EUR	171,979		193,424	1,589	0
	10/2015	BRL	5,700		1,666	0	(108)
	04/2016		45,300		12,601	0	(687)
GLM	07/2015		14,407		5,946	1,312	0
	07/2015	MXN	54,246		3,558	108	0
	07/2015	$	1,806	AUD	2,367	21	0
	07/2015		4,643	BRL	14,407	0	(10)
	07/2015		2,619	CAD	3,269	0	(2)
	07/2015		2,935	JPY	362,800	30	0
	08/2015	CHF	292	$	313	0	0
	08/2015	EUR	17,877		20,017	78	0
	08/2015	JPY	1,742,700		14,145	0	(100)
	08/2015	$	1,121	GBP	714	0	0
	09/2015	MXN	23,311	$	1,501	27	0
HUS	07/2015		34,039		2,216	51	0
	07/2015	$	1,857	MXN	28,224	0	(62)
	09/2015	MXN	36,415	$	2,341	39	0
JPM	07/2015	BRL	122,967		39,633	83	0
	07/2015	CAD	4,680		3,747	0	0
	07/2015	EUR	5,806		6,491	30	(12)
	07/2015	GBP	32,595		50,044	0	(1,171)

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Liability
	07/2015	$	38,384	BRL	122,967	$ 1,167	$ 0
	07/2015		3,897	EUR	3,509	35	(20)
	10/2015		4,490	BRL	14,100	0	(102)
	01/2016	BRL	111,900	$	37,752	3,976	0
MSB	07/2015		45,000		18,405	3,931	0
	07/2015	$	14,504	BRL	45,000	0	(30)
	07/2015		28,796	JPY	3,552,346	230	0
	07/2015		7,477	MXN	113,353	0	(268)
	08/2015	JPY	3,552,346	$	28,807	0	(231)
	08/2015	SAR	3,613		962	0	(1)
	08/2015	$	961	SAR	3,613	2	0
	10/2015		24,796	BRL	82,000	727	0
	01/2016	BRL	138,400	$	43,555	2,451	(670)
SCX	07/2015		24,227		7,808	16	0
	07/2015	EUR	68,082		76,289	388	0
	07/2015	MXN	126,229		8,097	69	0
	07/2015	$	7,978	BRL	24,227	0	(185)
	08/2015	INR	10,911	$	168	0	(2)
	08/2015	$	76,322	EUR	68,082	0	(388)
	09/2015		8,050	MXN	126,229	0	(69)
UAG	07/2015	EUR	1,067	$	1,201	12	0
	07/2015	JPY	2,529,200		20,538	0	(128)
	07/2015	MXN	84,374		5,509	143	0
	07/2015	$	37,355	EUR	34,247	826	0
	07/2015		51,176	GBP	32,595	39	0
	07/2015		40,823	JPY	5,031,900	293	0
	07/2015		8,665	MXN	131,463	0	(304)
	08/2015	EUR	6,421	$	7,200	39	0
	08/2015	GBP	32,595		51,165	0	(38)
	09/2015	MXN	17,090		1,095	14	0
Total Forward Foreign Currency Contracts						**$ 35,036**	**$ (9,905)**

PURCHASED OPTIONS:

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Cost	Market Value
GLM	Call - OTC USD versus SAR	SAR 3.756	08/05/2015	$ 8,300	$ 18	$ 2
MSB	Call - OTC USD versus SAR	3.759	07/30/2015	2,700	8	0
					$ 26	$ 2
Total Purchased Options					**$ 26**	**$ 2**

WRITTEN OPTIONS:

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Premiums (Received)	Market Value
BOA	Call - OTC EUR versus USD	$ 1.145	07/30/2015	EUR 20,759	$ (132)	$ (125)
	Call - OTC USD versus INR	INR 65.100	07/15/2015	$ 3,000	(18)	(2)
	Put - OTC USD versus JPY	JPY 80.000	02/18/2019	8,300	(472)	(52)
CBK	Put - OTC USD versus JPY	99.000	09/30/2015	1,300	(14)	0
DUB	Call - OTC USD versus ILS	ILS 4.000	07/27/2015	4,200	(33)	(1)
FBF	Call - OTC EUR versus USD	$ 1.145	07/30/2015	EUR 741	(4)	(5)
GLM	Call - OTC USD versus ILS	ILS 3.980	08/04/2015	$ 2,400	(20)	(2)
	Call - OTC USD versus INR	INR 64.500	07/14/2015	30,300	(206)	(37)
	Call - OTC USD versus INR	65.500	07/16/2015	200	(1)	0
	Call - OTC USD versus INR	65.500	07/24/2015	1,800	(12)	(1)
HUS	Call - OTC USD versus INR	65.000	07/02/2015	2,900	(16)	0
JPM	Put - OTC USD versus INR	61.500	07/15/2015	2,500	(13)	0
	Call - OTC USD versus INR	65.000	07/15/2015	2,500	(22)	(1)
SOG	Put - OTC USD versus JPY	JPY 109.000	11/19/2015	2,200	(37)	(3)
UAG	Call - OTC USD versus INR	INR 65.400	07/16/2015	2,800	(17)	(1)
	Put - OTC USD versus JPY	JPY 100.000	07/03/2015	1,900	(13)	0
					$ (1,030)	$ (230)

INTEREST RATE SWAPTIONS

Counterparty	Description	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount	Premiums (Received)	Market Value
CBK	Put - OTC 3-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	1.450%	07/27/2015	$ 160,000	$ (324)	$ (122)
Total Written Options							**$ (1,354)**	**$ (352)**

TRANSACTIONS IN WRITTEN CALL AND PUT OPTIONS FOR THE PERIOD ENDED JUNE 30, 2015:

	# of Contracts	Notional Amount in $	Notional Amount in AUD	Notional Amount in EUR	Premiums
Balance at Beginning of Period	0	$ 1,295,500	AUD 11,500	EUR 78,700	$ (8,115)
Sales	1,071	926,800	0	21,500	(3,445)
Closing Buys	(394)	(1,188,500)	0	0	6,043
Expirations	(677)	(663,100)	(7,400)	(49,500)	3,390
Exercised	0	(144,400)	(4,100)	(29,200)	773
Balance at End of Period	0	$ 226,300	AUD 0	EUR 21,500	$ (1,354)

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE AND SOVEREIGN ISSUES - SELL PROTECTION (1)

Counterparty	Reference Entity	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2015 (2)	Notional Amount (3)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BOA	BP Capital Markets America, Inc.	1.000%	12/20/2019	0.630%	EUR 5,200	$ 113	$ (16)	$ 97	$ 0
	Brazil Government International Bond	1.000%	09/20/2015	0.841%	$ 800	(4)	4	0	0
	China Government International Bond	1.000%	06/20/2019	0.690%	2,800	21	13	34	0
	MetLife, Inc.	1.000%	06/20/2017	0.269%	1,000	22	(7)	15	0
	Mexico Government International Bond	1.000%	09/20/2015	0.461%	800	7	(6)	1	0
BPS	BP Capital Markets America, Inc.	1.000%	12/20/2019	0.630%	EUR 1,500	34	(6)	28	0
BRC	Berkshire Hathaway, Inc.	1.000%	03/20/2019	0.502%	$ 3,700	59	9	68	0
	Berkshire Hathaway, Inc.	1.000%	12/20/2023	1.079%	1,000	(29)	23	0	(6)
	Brazil Government International Bond	1.000%	09/20/2015	0.841%	5,100	(39)	42	3	0
	MetLife, Inc.	1.000%	03/20/2019	0.490%	2,700	20	31	51	0
	Mexico Government International Bond	1.000%	09/20/2015	0.461%	5,500	(36)	44	8	0
	Mexico Government International Bond	1.000%	03/20/2018	0.874%	4,300	(7)	23	16	0
CBK	BP Capital Markets America, Inc.	1.000%	12/20/2019	0.630%	EUR 1,100	25	(5)	20	0
	Brazil Government International Bond	1.000%	09/20/2015	0.841%	$ 1,600	(19)	20	1	0
	Brazil Government International Bond	1.000%	06/20/2016	0.976%	27,000	(52)	65	13	0
	HSBC Bank PLC	1.000%	03/20/2019	0.796%	EUR 3,600	(36)	67	31	0
	Mexico Government International Bond	1.000%	09/20/2016	0.566%	$ 1,000	5	1	6	0
DUB	Berkshire Hathaway, Inc.	1.000%	06/20/2017	0.288%	7,300	172	(67)	105	0
	Berkshire Hathaway, Inc.	1.000%	03/20/2019	0.502%	1,700	36	(5)	31	0
	China Government International Bond	1.000%	03/20/2019	0.648%	1,300	1	16	17	0
	China Government International Bond	1.000%	06/20/2019	0.690%	600	5	2	7	0
	Export-Import Bank of China	1.000%	12/20/2016	0.399%	2,300	(186)	207	21	0
	MetLife, Inc.	1.000%	06/20/2017	0.269%	3,800	85	(29)	56	0
	MetLife, Inc.	1.000%	03/20/2019	0.490%	1,700	29	3	32	0
	Mexico Government International Bond	1.000%	03/20/2016	0.461%	3,200	(18)	31	13	0
	Mexico Government International Bond	1.000%	06/20/2016	0.527%	7,900	19	20	39	0
	Mexico Government International Bond	1.000%	09/20/2016	0.566%	700	3	1	4	0
FBF	BP Capital Markets America, Inc.	1.000%	12/20/2019	0.630%	EUR 200	4	0	4	0
	Prudential Financial, Inc.	1.000%	09/20/2019	0.585%	$ 3,400	69	(10)	59	0
	Wendel S.A.	5.000%	12/20/2019	1.078%	EUR 300	74	(16)	58	0
GST	MetLife, Inc.	1.000%	06/20/2016	0.141%	$ 3,800	65	(32)	33	0
	Mexico Government International Bond	1.000%	09/20/2016	0.566%	1,900	9	2	11	0
	Wendel S.A.	5.000%	12/20/2019	1.078%	EUR 1,000	251	(58)	193	0
HUS	Brazil Government International Bond	1.000%	09/20/2015	0.841%	$ 1,000	(10)	11	1	0
	Brazil Government International Bond	1.000%	03/20/2016	0.841%	1,200	(6)	8	2	0
	Mexico Government International Bond	1.000%	09/20/2015	0.461%	1,700	13	(10)	3	0
	Mexico Government International Bond	1.000%	09/20/2016	0.566%	700	4	0	4	0
JPM	BP Capital Markets America, Inc.	1.000%	12/20/2019	0.630%	EUR 3,800	85	(14)	71	0
	Brazil Government International Bond	1.000%	09/20/2015	0.841%	$ 400	(4)	4	0	0
	China Government International Bond	1.000%	06/20/2019	0.690%	3,000	15	22	37	0
	Mexico Government International Bond	1.000%	09/20/2016	0.566%	800	4	0	4	0
	Prudential Financial, Inc.	1.000%	09/20/2019	0.585%	5,000	102	(15)	87	0
	PSEG Power LLC	1.000%	12/20/2018	0.656%	1,700	11	9	20	0

See Accompanying Notes

Counterparty	Reference Entity	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at June 30, 2015 (2)	Notional Amount (3)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
MYC	BP Capital Markets America, Inc.	1.000%	12/20/2019	0.630%	EUR 3,400	$ 78	$ (15)	$ 63	$ 0
	BP Capital Markets America, Inc.	1.000%	03/20/2020	0.666%	2,800	47	2	49	0
	Brazil Government International Bond	1.000%	09/20/2015	0.841%	$ 400	(2)	2	0	0
	Wendel S.A.	5.000%	12/20/2019	1.078%	EUR 1,600	397	(89)	308	0
UAG	Brazil Government International Bond	1.000%	09/20/2015	0.841%	$ 500	(5)	5	0	0
						$ 1,431	$ 287	$ 1,724	$ (6)

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	Swap Agreements, at Value (4) Asset	Swap Agreements, at Value (4) Liability
FBF	CMBX.NA.AAA.1 Index	0.100%	10/12/2052	$ 4,629	$ (23)	$ 21	$ 0	$ (2)
GST	CDX.IG-9 10-Year Index 30-100%	0.548%	12/20/2017	193	0	2	2	0
JPM	CDX.IG-9 10-Year Index 30-100%	0.553%	12/20/2017	386	0	5	5	0
					$ (23)	$ 28	$ 7	$ (2)

(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 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.

(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	Swap Agreements, at Value Liability
DUB	Pay	1-Year BRL-CDI	11.470%	01/02/2017	BRL 8,300	$ (2)	$ (50)	$ 0	$ (52)
GLM	Pay	1-Year BRL-CDI	11.470%	01/02/2017	25,600	36	(195)	0	(159)
	Pay	1-Year BRL-CDI	13.000%	01/02/2018	1,100	0	0	0	0
HUS	Pay	28-Day MXN-TIIE	5.500%	06/11/2018	MXN 2,700	0	5	5	0
						$ 34	$ (240)	$ 5	$ (211)
Total Swap Agreements						**$ 1,442**	**$ 75**	**$ 1,736**	**$ (219)**

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, 2015:

(k) Securities with an aggregate market value of $377 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of June 30, 2015.

	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)
BOA	$ 0	$0	$147	$ 147	$ (177)	$(179)	$ 0	$ (356)	$ (209)	$ 0	$ (209)
BPS	8,715	0	28	8,743	(587)	0	0	(587)	8,156	(8,870)	(714)
BRC	34	0	146	180	0	0	(6)	(6)	174	(230)	(56)
CBK	858	0	71	929	(757)	(122)	0	(879)	50	296	346
DUB	7,650	0	325	7,975	(3,796)	(1)	(52)	(3,849)	4,126	(6,460)	(2,334)
FBF	1,642	0	121	1,763	(795)	(5)	(2)	(802)	961	(849)	112
GLM	1,576	2	0	1,578	(112)	(40)	(159)	(311)	1,267	(1,090)	177
GST	0	0	239	239	0	0	0	0	239	(270)	(31)
HUS	90	0	15	105	(62)	0	0	(62)	43	0	43

	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]
JPM	$ 5,291	$0	$ 224	$ 5,515	$ (1,305)	$ (1)	$ 0	$ (1,306)	$4,209	$(4,036)	$ 173
MSB	7,341	0	0	7,341	(1,200)	0	0	(1,200)	6,141	(6,480)	(339)
MYC	0	0	420	420	0	0	0	0	420	(280)	140
SCX	473	0	0	473	(644)	0	0	(644)	(171)	81	(90)
SOG	0	0	0	0	0	(3)	0	(3)	(3)	0	(3)
UAG	1,366	0	0	1,366	(470)	(1)	0	(471)	895	(770)	125
Total Over the Counter	**$35,036**	**$2**	**$1,736**	**$36,774**	**$(9,905)**	**$(352)**	**$(219)**	**$(10,476)**			

(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, 2015:

	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	$ 1,747	$ 1,747
Swap Agreements	0	0	0	0	819	819
	$ 0	$ 0	$ 0	$ 0	$ 2,566	$ 2,566
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 35,036	$ 0	$ 35,036
Purchased Options	0	0	0	2	0	2
Swap Agreements	0	1,731	0	0	5	1,736
	$ 0	$ 1,731	$ 0	$ 35,038	$ 5	$ 36,774
	$ 0	$ 1,731	$ 0	$ 35,038	$ 2,571	$ 39,340
Financial Derivative Instruments - Liabilities						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 488	$ 488
Swap Agreements	0	0	0	0	153	153
	$ 0	$ 0	$ 0	$ 0	$ 641	$ 641
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 9,905	$ 0	$ 9,905
Written Options	0	0	0	230	122	352
Swap Agreements	0	8	0	0	211	219
	$ 0	$ 8	$ 0	$ 10,135	$ 333	$ 10,476
	$ 0	$ 8	$ 0	$ 10,135	$ 974	$ 11,117

The Effect of Financial Derivative Instruments on the Statement of Operations for the period ended June 30, 2015:

	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	$ 333	$ 333
Futures	0	0	0	0	(4,977)	(4,977)
Swap Agreements	0	48	0	0	(1,231)	(1,183)
	$ 0	$ 48	$ 0	$ 0	$ (5,875)	$ (5,827)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 36,370	$ 0	$ 36,370
Purchased Options	0	0	0	21	(372)	(351)
Written Options	0	108	0	(358)	3,430	3,180
Swap Agreements	0	(1,605)	0	0	(237)	(1,842)
	$ 0	$ (1,497)	$ 0	$ 36,033	$ 2,821	$ 37,357
	$ 0	$ (1,449)	$ 0	$ 36,033	$ (3,054)	$ 31,530
Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 693	$ 693
Swap Agreements	0	42	0	0	492	534
	$ 0	$ 42	$ 0	$ 0	$ 1,185	$ 1,227
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ (4,691)	$ 0	$ (4,691)
Purchased Options	0	0	0	(24)	661	637
Written Options	0	(106)	0	(323)	(372)	(801)
Swap Agreements	0	2,969	0	0	1,168	4,137
	$ 0	$ 2,863	$ 0	$ (5,038)	$ 1,457	$ (718)
	$ 0	$ 2,905	$ 0	$ (5,038)	$ 2,642	$ 509

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of June 30, 2015 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2015
Investments in Securities, at Value				
Bank Loan Obligations	$ 0	$ 21,178	$ 0	$ 21,178
Corporate Bonds & Notes				
Banking & Finance	0	562,739	0	562,739
Industrials	0	248,123	0	248,123
Utilities	0	127,142	0	127,142
Municipal Bonds & Notes				
California	0	10,606	0	10,606
New Jersey	0	9,474	0	9,474
Texas	0	363	0	363
U.S. Government Agencies	0	237,489	1	237,490
U.S. Treasury Obligations	0	340,312	0	340,312
Mortgage-Backed Securities	0	175,998	462	176,460
Asset-Backed Securities	0	270,881	0	270,881
Sovereign Issues	0	164,261	0	164,261
Short-Term Instruments				
Certificates of Deposit	0	16,841	0	16,841
Commercial Paper	0	24,827	0	24,827
Repurchase Agreements	0	2,754	0	2,754
U.S. Treasury Bills	0	2,034	0	2,034
	$ 0	$ 2,215,022	$ 463	$ 2,215,485

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 06/30/2015
Investments in Affiliates, at Value				
Short Term Instruments				
Central Funds Used for Cash Management Purposes	$ 22,039	$ 0	$ 0	$ 22,039
Total Investments	$ 22,039	$ 2,215,022	$ 463	$ 2,237,524
Short Sales, at Value - Liabilities				
U.S. Government Agencies	$ 0	$ (4,182)	$ 0	$ (4,182)
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	1,747	819	0	2,566
Over the counter	0	36,774	0	36,774
	$ 1,747	$ 37,593	$ 0	$ 39,340
Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	(488)	(153)	0	(641)
Over the counter	0	(10,476)	0	(10,476)
	$ (488)	$ (10,629)	$ 0	$ (11,117)
Totals	$ 23,298	$ 2,237,804	$ 463	$ 2,261,565

There were no significant transfers between Levels 1, 2, or 3 during the period ended June 30, 2015.

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") serves as the investment adviser (the "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 Portfolio is treated as an investment company under the reporting requirements of 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 appreciation/depreciation 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, if any, 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 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 (overdistributed) net investment income (loss), accumulated undistributed/(overdistributed) net realized gains (losses) and/or paid in capital to more appropriately conform financial accounting to tax characterizations of dividend distributions.

(e) New Accounting Pronouncements In June 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), ASU 2014-11, that expanded 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 became effective prospectively for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. At this time, management is evaluating the implications of these changes on the financial statements.

In May 2015, the FASB issued ASU 2015-07 which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The ASU also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The ASU is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. 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 price of the Portfolio's shares is based on the Portfolio's NAV. The NAV of a class of the Portfolio's shares is determined by dividing the total value of the Portfolio's portfolio investments and other assets attributable to that class, less any liabilities, by the total number of shares outstanding of that class.

Portfolio shares are ordinarily valued as of the NYSE Close on each day that the NYSE is open. Information that becomes known to the Portfolio or its agents after the time as of which 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. The Portfolio reserves the right to change the time its NAV is calculated if the Portfolio closes earlier, or as permitted by the SEC.

For purposes of calculating NAV, portfolio securities and other assets for which market quotes are readily available are valued at market value. 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 established market makers or prices (including evaluated prices) supplied by the Portfolio's approved pricing services, quotation reporting systems and other third-party sources (together, "Pricing Services"). The Portfolio will normally use pricing data for domestic equity securities received shortly after the NYSE Close and does not normally take into account trading, clearances or settlements that take place after the NYSE Close. A foreign (non-U.S.) equity security traded on a foreign exchange or on more than one exchange is typically valued using pricing information from the exchange considered by the manager to be the primary exchange. A foreign (non-U.S.) equity security will be valued as of the close of trading on the foreign exchange, or the NYSE Close, if the NYSE Close occurs before the end of trading on the foreign exchange. Domestic and foreign (non-U.S.) fixed income securities, non-exchange traded derivatives, and equity options are normally valued on the basis of quotes obtained from brokers and dealers or Pricing Services using data reflecting the earlier closing of the principal markets for those securities. Prices obtained from Pricing Services may be based on, among other things, information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Certain fixed income securities purchased on a delayed-delivery basis are marked to market daily until settlement at the forward settlement date. Exchange-traded options, except equity options, futures and options on futures are valued at the settlement price determined by the relevant exchange. Swap agreements are valued on the basis of bid quotes obtained from brokers and dealers or market-based prices supplied by Pricing Services or other pricing sources. With respect to any portion of the Portfolio's assets that are invested in one or more open-end management investment companies, the Portfolio's NAV will be calculated based upon the NAVs of such investments.

If a foreign (non-U.S.) equity security's value has materially changed after the close of the security's primary exchange or principal market but before the NYSE Close, the security may be valued at fair value based on procedures established and approved by the Board of Trustees. Foreign (non-U.S.) equity securities that do not trade when the NYSE is open are also valued at fair value. With respect to foreign (non-U.S.) equity securities, the Portfolio may determine the fair value of investments based on information provided by Pricing Services and other third-party vendors, which may recommend fair value or adjustments with reference to other securities, indices or assets. In considering whether fair valuation is required and in determining fair values, the Portfolio may, among other things, consider significant events (which may be considered to include changes in the value of U.S. securities or securities indices) that occur after the close of the relevant market and before the NYSE Close. The Portfolio may utilize modeling tools provided by third-party vendors to determine fair values of non-U.S. securities. Foreign (non-U.S.) exchanges may permit trading in foreign (non-U.S.) equity securities on days when the Trust is not open for business, which may result in the Portfolio's portfolio investments being affected when you are unable to buy or sell shares.

Senior secured floating rate loans for which an active secondary market exists to a reliable degree will be valued at the mean of the last available bid/ask prices in the market for such loans, as provided by a Pricing Service. Senior secured floating rate loans for which an active secondary market does not exist to a reliable degree will be valued at fair value, which is intended to approximate market value. In valuing a senior secured floating rate loan at fair value, the factors considered may include, but are not limited to, the following: (a) the creditworthiness of the borrower and any intermediate participants, (b) the terms of the loan, (c) recent prices in the market for similar loans, if any, and (d) recent prices in the market for instruments of similar quality, rate, period until next interest rate reset and maturity.

Investments valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from Pricing Services. 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 Trust is not open for business. As a result, to the extent that the Portfolio holds foreign (non-U.S.) securities, the NAV of the Portfolio's shares may change at times when you cannot purchase, redeem or exchange shares.

Investments for which market quotes or market based valuations are not readily available are valued at fair value as determined in good faith by the Board of Trustees or persons acting at their direction. The Board of Trustees has adopted methods for valuing securities and other assets in circumstances where market quotes are not readily available, and has delegated to PIMCO the responsibility for applying the fair valuation methods. In the event that market quotes or market based valuations are not readily available, and the security or asset cannot be valued pursuant to a Board approved valuation method, the value of the security or asset will be determined in good faith by the Valuation Oversight Committee of the Board of Trustees, generally based on recommendations provided by PIMCO. 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, broker quotes, Pricing Services prices), 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 assets. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which the securities trade do not open for trading for the entire day and no other market prices are available. The Board has delegated to PIMCO the responsibility for monitoring significant events that may materially affect the values of the Portfolio's securities or assets and for determining whether the value of the applicable securities or assets should be reevaluated in light of such significant events.

When the Portfolio uses fair valuation to determine its NAV, securities will not be priced on the basis of quotes from the primary market in which they are traded, but rather may be priced by another method that the Board of Trustees or persons acting at their direction believe reflects fair value. Fair valuation 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 ensure that fair values determined by the Board of Trustees 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. The Portfolio's use of fair valuation may also help to deter "stale price arbitrage" as discussed under the "Frequent or Excessive Purchases, Exchanges and Redemptions" section in the Portfolio's prospectus.

(b) Fair Value Hierarchy U.S. GAAP describes fair 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, or 3). The inputs or methodology used for valuing securities are not necessarily an indication of the risks 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 material, 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, and if material, a Level 3 reconciliation and details of significant unobservable inputs, 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 value The valuation methods (or "techniques") and significant inputs used in determining the fair values of portfolio securities or other assets 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 on the basis of quotes obtained from brokers and dealers or 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, reported trades 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 valued (denominated) in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates (currency spot and forward 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 Trust is not open for business. 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 debt instruments (such as commercial paper) having a remaining maturity of 60 days or less may be valued at amortized cost, so long as the amortized cost value of such short-term debt instrument is approximately the same as the fair value of the instrument as determined without the use of amortized cost valuation. Prior to July 31, 2015, short-term investments having a maturity of 60 days or less and repurchase agreements were generally valued at amortized cost which approximates fair 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. Other than swap agreements, which are valued using a broker-dealer bid quotation or on market-based prices provided by pricing services or other pricing sources, these contracts are normally valued on the basis of quotes obtained from a quotation reporting system, established market makers or Pricing Services (normally determined at the close of the New York market). 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 quoted prices, issuer details, indices, bid/ask spreads, interest rates, implied volatilities, 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 (if available). 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.

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, Assignments and Originations 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, assignments of all or a portion of loans from third parties, or originations of loans by a Portfolio. 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. 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 types of loans and related investments in which the Portfolio may invest include, among others, senior loans, subordinated loans (including second lien loans, B-Notes and mezzanine loans), whole loans, commercial real estate and other commercial loans and structured loans. The Portfolio may originate loans or acquire direct interests in loans through primary loan distributions and/or in private transactions. In the case of subordinated loans, there may be significant indebtedness ranking ahead of the borrower's obligation to the holder of such a loan, including in the event of the borrower's insolvency. Mezzanine loans are typically secured by a pledge of an equity interest in the mortgage borrower that owns the real estate rather than an interest in a mortgage.

Investments in loans may include unfunded loan commitments, which are contractual obligations for 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, 2015, the Portfolio had no unfunded loan commitments outstanding.

Mortgage-Related and Other Asset-Backed Securities The Portfolio may invest in mortgage-related and other asset-backed securities that directly or indirectly represent a participation in, or are secured by and payable from, loans on real property. 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. 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. Many of the risks of investing in mortgage-related securities secured by commercial mortgage loans reflect the effects of local and other economic conditions on real estate markets, the ability of tenants to make lease payments, and the ability of a property to attract and retain tenants. These securities may be less liquid and may exhibit greater price volatility than other types of mortgage-related or other asset-backed securities. Other asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans.

Collateralized Mortgage Obligations ("CMOs") are debt obligations of a legal entity that are collateralized by whole mortgage loans or private mortgage bonds 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. CMOs 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. In addition to the normal risks associated with fixed income securities discussed elsewhere in this report and the Portfolio's prospectus and statement of additional information (e.g., prepayment risk, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may be exacerbated if the interest rate payable on a structured financing changes based on multiples of changes in interest rates or inversely to changes in interest rates)), CBOs, CLOs and other 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 quality of the collateral may decline in value or default, (iii) the Portfolio may invest in CBOs, CLOs, or other 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. Zero coupon securities do not distribute interest on a current basis and tend to be subject to a greater risk than interest-paying securities.

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.

The Portfolio may engage in strategies where it seeks to extend the expiration or maturity of a position, such as a TBA security on an underlying asset, by closing out the position before expiration and opening a new position with respect to the same underlying asset with a later expiration date. TBA securities are purchased or sold on a delayed-delivery basis.

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 III ("Central Fund") to the extent permitted by the Act and rules thereunder. The Central Fund is a registered investment company 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 Fund is money market and short maturity fixed income instruments. The Central Fund may incur expenses related to its investment activities, but do not pay Investment Advisory or Supervisory and Administrative Fees to PIMCO. The Central Fund is considered to be affiliated with the Portfolio. The table below shows the Portfolio's transactions in and earnings from investments in the Central Fund for the period ended June 30, 2015 (amounts in thousands†):

Investments in PIMCO Short-Term Floating NAV III Portfolio

Market Value 12/31/2014	Purchases at Cost	Proceeds from Sales	Net Realized Gain/(Loss)	Change in Unrealized Appreciation/ (Depreciation)	Market Value 06/30/2015	Dividend Income (1)	Realized Net Capital Gain Distributions (1)
$ 186,362	$ 558,996	$ (723,400)	$ (869)	$ 950	$ 22,039	$ 96	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.
(1) A portion of this income may be recharacterized to return of capital and reflected as such on tax forms mailed to shareholders on or about January 31st following each calendar year.

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 are 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 and 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. To mitigate such risk, cash or securities may be exchanged as collateral pursuant to the terms of the underlying 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 based on such movements in the price of the contracts, an appropriate payable or receivable for the change in value may be posted or collected by the Portfolio ("variation margin"). Gains or losses are recognized but not considered realized until the contracts expire or close. Futures contracts involve, to varying degrees, risk of loss in excess of variation margin disclosed within exchange traded or centrally cleared financial derivative instruments 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 with specified amounts of currency and a rate of exchange that may be exercised by a certain 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 may be privately negotiated in the over the counter market ("OTC swaps") or may be cleared through a third party, known as a central counterparty or derivatives clearing organization ("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 valuations as determined from the underlying contract or in accordance with the requirements of the central counterparty or derivatives clearing organization. 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 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.

For purposes of applying the Portfolio's investment policies and restrictions, swap agreements are generally valued by the Portfolio at market value. In the case of a credit default swap (see below), however, in applying certain of the Portfolio's investment policies and restrictions the Portfolio will value the credit default swap at its notional value or its full exposure value (i.e., the sum of the notional amount for the contract plus the market value), but may value the credit default swap at market value for purposes of applying certain of the Portfolio's other investment policies and restrictions. For example, the Portfolio may value credit default swaps at full exposure value for purposes of the Portfolio's credit quality guidelines (if any) because such value reflects the Portfolio's actual economic exposure during the term of the credit default swap agreement. In this context, both the notional amount and the market value may be positive or negative depending on whether the Portfolio is selling or buying protection through the credit default swap. The manner in which certain securities or other instruments are valued by the Portfolio for purposes of applying investment policies and restrictions may differ from the manner in which those investments are valued by other types of investors.

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 that the referenced entity, obligation or index, as specified in the trade agreement, undergoes a certain credit event. 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 that the referenced entity, obligation or index, as specified in the agreement, undergoes a certain 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 cost 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 can be useful as a measure of the sensitivity of a fixed income security's market price to interest rate (i.e., yield) movements that incorporates a security's yield, coupon, final maturity and call features, among other characteristics. A wide variety of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions). At present, the U.S. is experiencing historically low interest rates. This, combined with recent economic recovery and the end of the Fed's quantitative easing program, in October 2014, may 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 the Portfolio to lose value. If the Portfolio lost enough value, the Portfolio could face increased redemptions by shareholders, which could further impair its performance.

If the Portfolio invests directly in foreign (non-U.S.) currencies or in securities that trade in, and receive revenues in, foreign (non-U.S.) currencies, or in financial derivatives that provide exposure to foreign (non-U.S.) 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 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.

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 where applicable. For derivatives traded on exchanges, the primary credit risk is the creditworthiness of the Portfolio's clearing broker or the exchange itself. 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. PIMCO, as the Adviser, minimizes counterparty risks to the Portfolio through a number of ways. Prior to entering into transactions with a new counterparty, the PIMCO Counterparty Risk Committee conducts an extensive credit review of such counterparty and must approve the use of such counterparty. Furthermore, pursuant to the terms of the underlying contract, to the extent that unpaid amounts owed to the Portfolio exceed a predetermined threshold, such counterparty shall advance collateral to the Portfolio in the form of cash or securities 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.

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 may be 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. Each type of Master Agreement governs certain types of transactions. Different types of transactions may be traded out of different legal entities or affiliates of a particular organization, 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 Master Agreement with a counterparty. For financial reporting purposes the Statement of Assets and Liabilities generally shows derivative assets and liabilities on a gross basis, which reflects the full risks and exposures prior to netting.

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 on 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 on 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 NAV. 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 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 Over the Counter ("OTC") derivatives. Such 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 United States, counterparty risk is significantly reduced as creditors of a futures broker cannot have a claim to Portfolio assets in the segregated account. Additionally, portability of exposure in the event of a default scenario 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 derivative transactions entered into by the Portfolio with 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 Plans for the Advisor Class shares of the Portfolio (the "Distribution and Servicing Plans"). The Distribution and Servicing Plans have been adopted pursuant to Rule 12b-1 under the Act. The Distribution and Servicing Plans permit 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 Plans permit 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) taxes and governmental fees; (ii) brokerage fees and commissions and other portfolio transaction expenses; (iii) the costs of borrowing money, including interest expense; (iv) fees and expenses of the Trustees who are not "interested persons" of PIMCO or the Trust, and any counsel retained exclusively for their benefit; (v) extraordinary expense, including costs of litigation and indemnification expenses; (vi) organizational expenses; and (vii) any expenses allocated or allocable to a specific class of shares, which include service fees payable with respect to the Administrative Class Shares, and may include certain other expenses as permitted by the Trust's 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, receives an annual retainer of $35,000, plus $3,600 for each Board meeting attended in person, $750 for each committee meeting attended and $750 for each Board meeting attended telephonically, plus reimbursement of related expenses. In addition, the audit committee chair receives an additional annual retainer of $5,000, the valuation oversight committee lead receives an additional annual retainer of $3,250 (to the extent there are co-leads of the valuation oversight committee, the annual retainer will be split evenly between the co-leads) and the governance committee chair receives 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 fund or 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, 2015, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 of the Act (amounts in thousands):

Purchases	Sales
$ 93,159	$ 48,898

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, 2015, were as follows (amounts in thousands):

U.S. Government/Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 1,368,883	$ 1,077,159	$ 553,198	$ 342,873

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 06/30/2015		Year Ended 12/31/2014	
	Shares	Amount	Shares	Amount
Receipts for shares sold				
Institutional Class	51	$ 535	115	$ 1,217
Administrative Class	7,439	79,009	34,121	363,560
Advisor Class	6,695	71,061	13,683	145,639
Issued as reinvestment of distributions				
Institutional Class	8	87	57	607
Administrative Class	1,034	10,968	1,654	17,615
Advisor Class	465	4,934	626	6,660
Cost of shares redeemed				
Institutional Class	(618)	(6,577)	(4,411)	(46,929)
Administrative Class	(26,497)	(281,721)	(38,068)	(405,306)
Advisor Class	(6,064)	(64,460)	(11,304)	(120,374)
Net increase (decrease) resulting from Portfolio share transactions	(17,487)	$ (186,164)	(3,527)	$ (37,311)

As of June 30, 2015, two shareholders each owned 10% or more of the Portfolio's total outstanding shares comprising 46% of the Portfolio.

13. REGULATORY AND LITIGATION MATTERS

The Trust is not named as a defendant in any material litigation or arbitration proceedings and is not aware of any material litigation or claim pending or threatened against it.

PIMCO has received a Wells Notice from the staff of the U.S. Securities and Exchange Commission ("SEC") that relates to the PIMCO Total Return Active Exchange-Traded Fund ("BOND"), a series of PIMCO ETF Trust. The notice indicates the staff's preliminary determination to recommend that the SEC commence a civil action against PIMCO stemming from a nonpublic investigation relating to BOND. A Wells Notice is neither a formal allegation of wrongdoing nor a finding that any law was violated.

This matter principally pertains to the valuation of smaller sized positions in non-agency mortgage-backed securities purchased by BOND between its inception on February 29, 2012 and June 30, 2012, BOND's performance disclosures for that period, and PIMCO's compliance policies and procedures related to these matters.

The Wells process provides PIMCO with its opportunity to demonstrate to the SEC staff why it believes its conduct was appropriate, in keeping with industry standards, and that no action should be taken. PIMCO believes that this matter is unlikely to have a material adverse effect on any Portfolio or on PIMCO's ability to provide investment management services to any Portfolio.

The foregoing speaks only as of the date of this report.

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.

The Portfolio may be subject to local withholding taxes, including those imposed on realized capital gains. Any applicable foreign capital gains tax is accrued daily based upon net unrealized gains, and may be payable following the sale of any applicable investments.

In accordance with U.S. GAAP, the Adviser has reviewed the Portfolio's tax positions for all open tax years. As of June 30, 2015, 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 2012-2014, 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, 2015, 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/ (Depreciation) (1)
$ 2,260,134	$ 12,308	$ (34,918)	$ (22,610)

(1) Primary differences, if any, between book and tax net unrealized appreciation/(depreciation) are attributable to wash sale loss deferrals for federal income tax purposes.

Glossary: (abbreviations that may be used in the preceding statements)

(Unaudited)

Counterparty Abbreviations:

BOA	Bank of America N.A.	**GLM**	Goldman Sachs Bank USA	**MYC**	Morgan Stanley Capital Services, Inc.
BOS	Banc of America Securities LLC	**GRE**	RBS Securities, Inc.	**SCX**	Standard Chartered Bank
BPS	BNP Paribas S.A.	**GSC**	Goldman Sachs & Co.	**SOG**	Societe Generale
BRC	Barclays Bank PLC	**GST**	Goldman Sachs International	**SSB**	State Street Bank and Trust Co.
BSN	Bank of Nova Scotia	**HUS**	HSBC Bank USA N.A.	**TDM**	TD Securities (USA) LLC
CBK	Citibank N.A.	**JPM**	JPMorgan Chase Bank N.A.	**UAG**	UBS AG Stamford
DUB	Deutsche Bank AG	**MSB**	Morgan Stanley Bank, N.A		
FBF	Credit Suisse International	**MSC**	Morgan Stanley & Co., Inc.		

Currency Abbreviations:

AUD	Australian Dollar	**EUR**	Euro	**JPY**	Japanese Yen
BRL	Brazilian Real	**GBP**	British Pound	**MXN**	Mexican Peso
CAD	Canadian Dollar	**ILS**	Israeli Shekel	**SAR**	Saudi Riyal
CHF	Commercial Mortgage-Backed Index	**INR**	Indian Rupee	**USD (or $)**	United States Dollar

Exchange Abbreviations:

OTC	Over the Counter

Index/Spread Abbreviations:

CDX.IG	Credit Derivatives Index - High Yield	**CMBX**	Commercial Mortgage-Backed Index

Other Abbreviations:

ALT	Alternate Loan Trust	**FDIC**	Federal Deposit Insurance Corp.	**REMIC**	Real Estate Mortgage Investment Conduit
CDI	Brazil Interbank Deposit Rate	**LIBOR**	London Interbank Offered Rate	**TIIE**	Tasa de Interés Interbancaria de Equilibrio

Results of Proxy Voting

(Unaudited)

A special meeting of shareholders of the series of the Trust was held on April 20, 2015. The special meeting was held for the purpose of electing six (6) Trustees to the Trust's Board of Trustees. Shareholders of all series of the Trust voted together on the proposal, and elected the following six (6) Trustees at the special meeting:

- George E. Borst
- Jennifer Holden Dunbar
- Douglas M. Hodge
- Gary F. Kennedy
- Peter B. McCarthy
- Ronald C. Parker

The results of the proxy solicitation on the preceding matter were as follows:

PIMCO Variable Insurance Trust

Trustee Nominee	For*	Withheld*
George E. Borst	1,729,932,872	83,655,588
Jennifer Holden Dunbar	1,737,465,021	76,123,439
Douglas M. Hodge	1,733,328,427	80,260,033
Gary F. Kennedy	1,732,444,393	81,144,067
Peter B. McCarthy	1,735,058,546	78,529,914
Ronald C. Parker	1,734,950,803	78,637,657

* Certain series of the Trust's shares were held by PIMCO-advised funds or accounts for which PIMCO had discretionary authority to vote proxies. Accordingly, PIMCO voted such shares in proportion to the votes of all other Trust shareholders voting on the proposal.

(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 and Trust Company
801 Pennsylvania Avenue
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

PVIT475AR_063015

FRANKLIN TEMPLETON
INVESTMENTS

Semiannual Report
June 30, 2015

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.

Not FDIC Insured | May Lose Value | No Bank Guarantee

Important Notes to Performance Information

Performance data is historical and cannot predict or guarantee future results. Principal value and investment return will fluctuate with market conditions, and you may have a gain or loss when you withdraw your money. Inception dates of the funds may have preceded the effective dates of the subaccounts, contracts or their availability in all states.

When reviewing the index comparisons, please keep in mind that indexes have a number of inherent performance differentials over the funds. First, unlike the funds, which must hold a minimum amount of cash to maintain liquidity, indexes do not have a cash component. Second, the funds are actively managed and, thus, are subject to management fees to cover salaries of securities analysts or portfolio managers in addition to other expenses. Indexes are unmanaged and do not include any commissions or other expenses typically associated with investing in securities. Third, indexes often contain a different mix of securities than the fund to which they are compared. Additionally, please remember that indexes are simply a measure of performance and cannot be invested in directly.

Supplement Dated June 30, 2015
to the Statement of Additional Information
Dated May 1, 2015
of Franklin Templeton Variable Insurance Products Trust

The statement of additional information (SAI) is amended as follows:

In the section "**Glossary of Investments, Techniques, Strategies and Their Risks**" under the heading "**Foreign securities**" the following is added before the paragraph on page 40 that begins with "*Developing markets or emerging markets*:"

Investing through Stock Connect. Foreign investors may now invest in eligible China A shares ("Stock Connect Securities") listed and traded on the Shanghai Stock Exchange ("SSE") through the Shanghai – Hong Kong Stock Connect ("Stock Connect") program. Stock Connect is a securities trading and clearing program developed by The Stock Exchange of Hong Kong Limited ("SEHK"), SSE, Hong Kong Securities Clearing Company Limited and China Securities Depository and Clearing Corporation Limited for the establishment of mutual market access between SEHK and SSE. In contrast to certain other regimes for foreign investment in Chinese securities, no individual investment quotas or licensing requirements apply to investors in Stock Connect Securities through Stock Connect. In addition, there are no lock-up periods or restrictions on the repatriation of principal and profits.

However, trading through Stock Connect is subject to a number of restrictions that may affect a Fund's investments and returns. For example, a primary feature of the Stock Connect program is the application of the home market's laws and rules to investors in a security. Thus, investors in Stock Connect Securities are generally subject to PRC securities regulations and SSE listing rules, among other restrictions. In addition, Stock Connect Securities generally may not be sold, purchased or otherwise transferred other than through Stock Connect in accordance with applicable rules. While Stock Connect is not subject to individual investment quotas, daily and aggregate investment quotas apply to all Stock Connect participants, which may restrict or preclude a Fund's ability to invest in Stock Connect Securities. For example, an investor cannot purchase and sell the same security on the same trading day. Stock Connect also is generally available only on business days when both the SSE and the SEHK are open. Trading in the Stock Connect Program is subject to trading, clearance and settlement procedures that are untested in the PRC, which could pose risks to a Fund. Finally, the withholding tax treatment of dividends and capital gains payable to overseas investors currently is unsettled.

Stock Connect is in its initial stages. Further developments are likely and there can be no assurance as to whether or how such developments may restrict or affect a Fund's investments or returns. In addition, the application and interpretation of the laws and regulations of Hong Kong and the PRC, and the rules, policies or guidelines published or applied by relevant regulators and exchanges in respect of the Stock Connect program, are uncertain, and they may have a detrimental effect on a Fund's investments and returns.

Please keep this supplement with your Statement of Additional Information for future reference.

**SUPPLEMENT DATED MAY 1, 2015
TO THE STATEMENT OF ADDITIONAL INFORMATION
DATED MAY 1, 2015
OF FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST**

The statement of additional information (SAI) is amended as follows:

I. The section entitled "Calculation of Net Asset Value" in the SAI is removed in its entirety.

Please keep this supplement with your statement of additional information for future reference.

Templeton Developing Markets VIP Fund

This semiannual report for Templeton Developing Markets VIP Fund covers the period ended June 30, 2015.

Class 2 Performance Summary as of June 30, 2015

The Fund's Class 2 shares had a -2.17% total return* for the six-month period ended June 30, 2015.

*The Fund has a fee waiver associated with any investment 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.

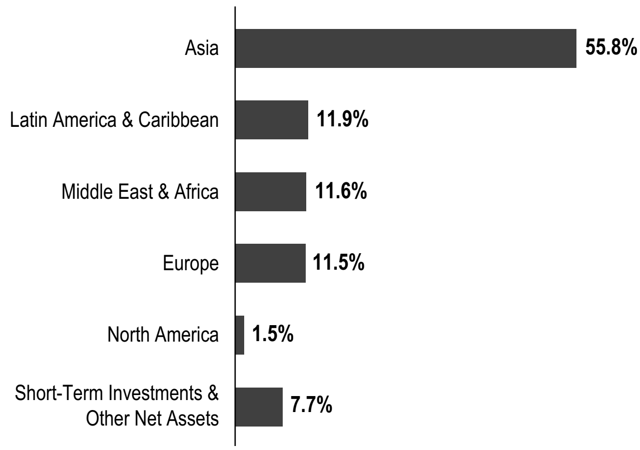
Performance Overview

You can find the Fund's six-month total return in the Performance Summary. In comparison, the MSCI Emerging Markets (EM) Index generated a +3.12% total return, and the Standard & Poor's®/International Finance Corporation Investable Composite Index produced a +4.03% 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 global economy expanded moderately during the six months under review. Although several emerging market countries faced headwinds such as soft domestic demand, weak exports and geopolitical crises, emerging market economies overall continued to grow faster than developed market economies. China's economy grew at a less robust pace in 2015's first half, amid relatively steady consumption and industrial production but weaker fixed-asset investment growth. Domestic demand continued to account for a greater portion of gross

Geographic Breakdown
Based on Total Net Assets as of 6/30/15



domestic product, as per-capita income grew and the government's market-friendly policies supported new economic drivers that could help make economic expansion more sustainable. Many emerging market countries showed signs of economic improvement, including India, South Africa and the Czech Republic, while others, such as Thailand and South Korea, showed signs of moderation. In the first quarter, Brazil's economy contracted and Russia's economy contracted for the third consecutive quarter. Many emerging market central banks, including those of Russia, India and China, lowered interest rates to promote lending and economic growth. In contrast, Brazil's central bank raised interest rates in an effort to control inflation and support the country's currency.

Emerging market stocks experienced volatility during the period amid concerns about global economic growth, the future course of U.S. monetary policy, the devaluation of many currencies against the U.S. dollar and Greece's debt negotiations. Nonetheless, China's monetary stimulus measures, the Bank of Japan's and the European Central Bank's monetary easing, and the U.S. Federal Reserve's accommodative policy provided investors with some optimism. Early in the period, a temporary solution to Greece's dispute with the country's international creditors and a Russia-Ukraine ceasefire agreement bolstered emerging market stocks. However, near period-end, investors grew concerned about Greece's possible exit from the eurozone as debt negotiations deteriorated. The Greek government subsequently imposed capital controls, defaulted on scheduled payments to the International Monetary Fund and announced a referendum on the terms of a potential bailout

1. Source: 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.

deal. Although oil prices began to improve during the period, the effects of 2014's sharp decline on several oil-producing countries' economies, financial positions and currencies continued to weigh on investor sentiment.

For the six months ended June 30, 2015, emerging market stocks, as measured by the MSCI EM Index, rose 5.80% in local currency terms, as many investors seemed to focus on the relatively attractive valuations of many emerging market stocks.[1] However, relatively weak local currencies resulted in a +3.12% total return in U.S. dollar terms.[1] European and Asian emerging markets overall performed well for the period, which helped offset declines in Latin America.

The Chinese government's market-friendly policies, stimulus measures and commitment to stable growth supported China equity markets overall, particularly the domestic A-share market.[2] As measured by the MSCI China A Index, the domestic A-share market began to rise in late 2014 after the People's Bank of China's (PBOC's) surprise interest rate cut in November and the effective easing of loan and deposit regulations to boost the economy. Also supporting A shares was the Shanghai-Hong Kong Stock Connect program, which opened China's domestic A-share market to certain qualified foreign investors. Domestic retail investor market speculation led the MSCI China A Index to generate total returns of +112.27% for the 12 months and +33.92% for the six months ended June 30, 2015.[3] In contrast, Chinese stocks aimed at foreign investors, as measured by the MSCI China Index, produced more modest +24.95% and +14.84% total returns for the same respective periods, as foreign investors seemed more focused on economic growth and market fundamentals.[3]

After peaking on June 12, China's domestic market began to correct, resulting initially from tight liquidity conditions and uncertainties about the PBOC's monetary policy, with a 17.33% decline for the MSCI China A Index from June 12 to June 30.[3] Following the domestic market's nearly 8% plunge on June 26, the PBOC lowered its benchmark interest rate and announced targeted reserve requirement ratio cuts for certain banks.[3] In an effort to prevent a market collapse, the government imposed other measures that restricted trading. However, certain government intervention measures were not well received and further contributed to investor concerns.

Top 10 Countries
6/30/15

	% of Total Net Assets
China	22.8%
South Africa	10.6%
Brazil	9.9%
India	9.5%
Thailand	6.8%
South Korea	5.6%
Belgium	4.2%
Taiwan	4.2%
Indonesia	4.1%
U.K.	4.0%

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, the Fund remained diversified among different emerging market countries. We invested in China through B, China H, Red Chip and P Chip shares,[2] as well as single-listed American Depositary Receipts (ADRs of companies whose underlying shares are not listed in home markets),[4] with no holdings in China's domestic A-share

2. China equity markets consist of A, B, China H, Red Chip and P Chip shares. "A" denotes shares of companies incorporated in China that are listed on the Shanghai and Shenzhen Stock Exchanges, are quoted in the Chinese renminbi and entail foreign investment regulations. "B" denotes shares of companies incorporated in China that are listed on the Shanghai and Shenzhen Stock Exchanges, are quoted in foreign currencies (U.S. dollar for Shanghai and Hong Kong dollar for Shenzhen) and are open to foreign investors. "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. "P Chip" denotes shares of Hong Kong Stock Exchange-listed companies controlled by Chinese mainland individuals and incorporated outside of China, with a majority of their business in China.

3. Source: MSCI.

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.

4. A single-listed ADR is a negotiable U.S. security issued by a U.S. bank, referred to as a "depositary bank," that typically represents a non-U.S. company's equity, is publicly available to U.S. investors on a national stock exchange (NYSE or NASDAQ) or on the over-the-counter market, and has underlying shares that are not publicly traded in the issuer's home market.

market. Consistent with our long-term investment strategy, we viewed China's recent market correction in the context of a long-term uptrend. We continued to monitor China's economic and market developments while seeking to minimize risk and to establish long-term positions in quality companies at share prices we considered more attractive.

Key contributors to the Fund's absolute performance during the reporting period included Naspers, Hyundai Development and SK Innovation.

Naspers is a South Africa-based media conglomerate with a portfolio of emerging market assets focused on Internet services and online advertising, which continued to experience rapid growth and increasingly effective advertising revenue generation. Solid corporate results, driven by strong growth in its pay television and Internet platforms, also bolstered the company's share price. A key asset in Naspers's business portfolio is an investment in China's largest and most widely used Internet services platform, Tencent Holdings, another Fund holding that performed well during the reporting period. Further supporting investor sentiment was Naspers's agreements with other companies to develop joint online classified advertising businesses in Brazil, Indonesia, Thailand and Bangladesh.

Hyundai Development is one of South Korea's leading residential property developers. We believed that with its strong IPARK brand name, the company could potentially have the largest market share in the country's residential construction business. The South Korean government's measures to stimulate the housing market and the central bank's rate cuts resulting in record-low interest rates aided investor sentiment during the reporting period. After posting losses in 2012 and 2013, the company reported profits in 2014, as it benefited from South Korea's strong residential demand growth.

SK Innovation is a South Korean energy conglomerate with interests in oil refining, petrochemicals, lubricants and exploration and production. The company also has expertise in lithium-polymer battery production. Its shares rose during the period as a strong turnaround in its core refining and petrochemicals businesses helped the company return to profit in 2015's first quarter, following a loss in 2014's fourth quarter. The company's efforts to streamline its businesses and improve its financial position were also well received by investors.

In contrast, key detractors from the Fund's absolute performance included Tata Motors, Avon Products and Itau Unibanco Holding.

Top 10 Holdings
6/30/15

Company ***Sector/Industry, Country***	**% of Total Net Assets**
Naspers Ltd., N *Media, South Africa*	5.3%
Anheuser-Busch InBev NV *Beverages, Belgium*	4.3%
TSMC (Taiwan Semiconductor Manufacturing Co.) Ltd. *Semiconductors & Semiconductor Equipment, Taiwan*	4.2%
Itau Unibanco Holding SA, ADR, pfd. *Banks, Brazil*	4.2%
Unilever PLC *Personal Products, U.K.*	4.0%
Brilliance China Automotive Holdings Ltd. *Automobiles, China*	3.5%
Tata Consultancy Services Ltd. *IT Services, India*	3.2%
China Life Insurance Co. Ltd., H *Insurance, China*	2.9%
Remgro Ltd. *Diversified Financial Services, South Africa*	2.8%
PetroChina Co. Ltd., H *Oil, Gas & Consumable Fuels, China*	2.7%

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).

Tata Motors, India's largest automobile company, produces a wide range of cars and commercial vehicles in its home market, while its wholly owned subsidiary manufactures British luxury car brands Jaguar and Land Rover. Tata Motors' shares declined as the luxury car subsidiary experienced weak demand in a number of key markets, including China, Brazil and Europe. In addition, vehicle production by a joint venture in China progressed more slowly than anticipated, leading to weaker-than-expected earnings in 2015's first quarter.

Avon Products is a U.S.-based global cosmetics business with substantial operations in various emerging markets, most notably Brazil. Brazil's weak economy hurt the company's corporate results. Concerns about Avon's ability to pay its substantial debts in a weak market environment led to credit rating downgrades. However, the firm is in the process of selling certain assets and using the proceeds to reduce its debt. Further hurting Avon's shares were the economic and currency crises in Russia, another substantial market.

Itau Unibanco, one of Brazil's largest financial conglomerates, provides a full range of banking and financial services. It continued to produce strong operating performance despite Brazil's difficult economic environment. The company's shares strengthened through April, but profit taking and the Brazilian real's weakness against the U.S. dollar, as well as political protests and sluggish economic growth that worried investors, pressured stock performance.

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, 2015, the U.S. dollar rose in value relative to most currencies. As a result, the Fund's performance was negatively affected by the portfolio's investment predominantly in securities with non-U.S. currency exposure.

In the past six months, we increased the Fund's holdings in several countries, including Brazil, South Korea, Indonesia and Taiwan, as we continued to invest in opportunities we considered more attractive. We also initiated exposure to certain countries, notably Russia and Cambodia, and made select purchases in China through single-listed ADRs and B, China H and Red Chip shares. In sector terms, we increased investments largely in consumer discretionary, health care and information technology.[5] Key purchases included a new position in Baidu, China's leading Internet search engine, and additional shares of TSMC (Taiwan Semiconductor Manufacturing Co.), the world's largest independent integrated circuit foundry, and Dr. Reddy's Laboratories, one of India's major pharmaceutical companies.

Conversely, we reduced the Fund's investments in several countries, including Thailand, South Africa and India, and eliminated exposure to certain countries, notably Turkey and Qatar, as we received share redemptions and as we focused on stocks we considered to be more attractively valued within our investment universe. In sector terms, we reduced holdings largely in financials and sold some positions in industrials and consumer staples.[6] Key sales included reductions in Siam Commercial Bank, a financial products and services provider in Thailand and internationally; Remgro, a South African conglomerate with businesses in finance, health care, food and industrials; and China Construction Bank, a Chinese commercial bank.

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, 2015, 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.

5. The consumer discretionary sector comprises auto components; automobiles; distributors; diversified consumer services; hotels, restaurants and leisure; Internet and catalog retail; media; multiline retail; specialty retail; and textiles, apparel and luxury goods in the SOI. The health care sector comprises biotechnology and pharmaceuticals in the SOI. The information technology sector comprises Internet software and services; IT services; semiconductors and semiconductor equipment; and technology hardware, storage and peripherals in the SOI.

6. The financials sector comprises banks, diversified financial services, insurance, and real estate management and development in the SOI. The industrials sector comprises airlines, construction and engineering, machinery and marine in the SOI. The consumer staples sector comprises beverages, food and staples retailing, food products and personal products 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 1/1/15	Ending Account Value 6/30/15	Fund-Level Expenses Incurred During Period* 1/1/15–6/30/15
Actual	$1,000	$ 978.30	$7.90
Hypothetical (5% return before expenses)	$1,000	$1,016.81	$8.05

*Expenses are calculated using the most recent six-month annualized expense ratio, net of expense waivers, for the Fund's Class 2 shares (1.61%), which does not include any ongoing expenses of the Contract for which the Fund is an investment option, multiplied by the average account value over the period, multiplied by 181/365 to reflect the one-half year period.

Financial Highlights

Templeton Developing Markets VIP Fund

	Six Months Ended June 30, 2015 (unaudited)	Year Ended December 31, 2014	2013	2012	2011	2010
Class 1						
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	$9.27	$10.26	$10.58	$9.50	$11.40	$9.86
Income from investment operations[a]:						
Net investment income[b]	0.05	0.15[c]	0.13	0.19	0.17	0.09
Net realized and unrealized gains (losses)	(0.24)	(0.97)	(0.22)	1.06	(1.94)	1.63
Total from investment operations	(0.19)	(0.82)	(0.09)	1.25	(1.77)	1.72
Less distributions from:						
Net investment income	(0.20)	(0.17)	(0.23)	(0.17)	(0.13)	(0.18)
Net realized gains	(1.13)	—	—	—	—	—
Total distributions	(1.33)	(0.17)	(0.23)	(0.17)	(0.13)	(0.18)
Redemption fees	—	—[d]	—[d]	—[d]	—[d]	—[d]
Net asset value, end of period	$7.75	$9.27	$10.26	$10.58	$9.50	$11.40
Total return[e]	(1.97)%	(8.09)%	(0.73)%	13.40%	(15.67)%	17.83%
Ratios to average net assets[f]						
Expenses	1.36%[g]	1.36%[g]	1.35%	1.35%	1.40%	1.49%[h]
Net investment income	1.20%	1.51%[c]	1.25%	1.93%	1.57%	0.87%
Supplemental data						
Net assets, end of period (000's)	$99,951	$114,487	$145,707	$203,568	$232,544	$347,242
Portfolio turnover rate	27.00%	82.87%	44.59%	24.45%	14.90%	24.41%

[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's 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]Net investment income per share includes approximately $0.04 per share received in the form of special dividends. Excluding these amounts, the ratio of net investment income to average net assets would have been 1.11%.

[d]Amount rounds to less than $0.01 per share.

[e]Total return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle. Total return is not annualized for periods less than one year.

[f]Ratios are annualized for periods less than one year.

[g]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[h]Benefit of expense reduction rounds to less than 0.01%.

Templeton Developing Markets VIP Fund (continued)

	Six Months Ended June 30, 2015 (unaudited)	Year Ended December 31, 2014	2013	2012	2011	2010
Class 2						
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	$9.20	$10.19	$10.50	$9.42	$11.30	$9.78
Income from investment operations[a]:						
Net investment income[b]	0.04	0.12[c]	0.10	0.17	0.14	0.06
Net realized and unrealized gains (losses)	(0.24)	(0.96)	(0.21)	1.05	(1.92)	1.62
Total from investment operations	(0.20)	(0.84)	(0.11)	1.22	(1.78)	1.68
Less distributions from:						
Net investment income	(0.18)	(0.15)	(0.20)	(0.14)	(0.10)	(0.16)
Net realized gains	(1.13)	—	—	—	—	—
Total distributions	(1.31)	(0.15)	(0.20)	(0.14)	(0.10)	(0.16)
Redemption fees	—	—[d]	—[d]	—[d]	—[d]	—[d]
Net asset value, end of period	$7.69	$9.20	$10.19	$10.50	$9.42	$11.30
Total return[e]	(2.17)%	(8.39)%	(0.92)%	13.16%	(15.86)%	17.58%
Ratios to average net assets[f]						
Expenses	1.61%[g]	1.61%[g]	1.60%	1.60%	1.65%	1.74%[h]
Net investment income	0.95%	1.26%[c]	1.00%	1.68%	1.32%	0.62%
Supplemental data						
Net assets, end of period (000's)	$233,398	$250,813	$274,683	$291,638	$295,223	$392,546
Portfolio turnover rate	27.00%	82.87%	44.59%	24.45%	14.90%	24.41%

[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's 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]Net investment income per share includes approximately $0.04 per share received in the form of special dividends. Excluding these amounts, the ratio of net investment income to average net assets would have been 0.86%.

[d]Amount rounds to less than $0.01 per share.

[e]Total return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle. Total return is not annualized for periods less than one year.

[f]Ratios are annualized for periods less than one year.

[g]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[h]Benefit of expense reduction rounds to less than 0.01%.

Templeton Developing Markets VIP Fund (continued)

	Six Months Ended June 30, 2015 (unaudited)	Year Ended December 31,				
		2014	2013	2012	2011	2010
Class 4						
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	$9.22	$10.20	$10.50	$9.42	$11.30	$9.80
Income from investment operations[a]:						
Net investment income[b]	0.04	0.12[c]	0.10	0.16	0.13	0.05
Net realized and unrealized gains (losses)	(0.25)	(0.97)	(0.21)	1.04	(1.91)	1.61
Total from investment operations	(0.21)	(0.85)	(0.11)	1.20	(1.78)	1.66
Less distributions from:						
Net investment income	(0.16)	(0.13)	(0.19)	(0.12)	(0.10)	(0.16)
Net realized gains	(1.13)	—	—	—	—	—
Total distributions	(1.29)	(0.13)	(0.19)	(0.12)	(0.10)	(0.16)
Redemption fees	—	—[d]	—[d]	—[d]	—[d]	—[d]
Net asset value, end of period	$7.72	$9.22	$10.20	$10.50	$9.42	$11.30
Total return[e]	(2.22)%	(8.48)%	(1.07)%	13.06%	(15.88)%	17.41%
Ratios to average net assets[f]						
Expenses	1.71%[g]	1.71%[g]	1.70%	1.70%	1.75%	1.84%[h]
Net investment income	0.85%	1.16%[c]	0.90%	1.58%	1.22%	0.52%
Supplemental data						
Net assets, end of period (000's)	$9,311	$11,106	$15,225	$23,341	$24,380	$37,198
Portfolio turnover rate	27.00%	82.87%	44.59%	24.45%	14.90%	24.41%

[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's 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]Net investment income per share includes approximately $0.04 per share received in the form of special dividends. Excluding these amounts, the ratio of net investment income to average net assets would have been 0.76%.

[d]Amount rounds to less than $0.01 per share.

[e]Total return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle. Total return is not annualized for periods less than one year.

[f]Ratios are annualized for periods less than one year.

[g]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[h]Benefit of expense reduction rounds to less than 0.01%.

Statement of Investments, June 30, 2015 (unaudited)

Templeton Developing Markets VIP Fund

	Industry	Shares	Value
Common Stocks 83.6%			
Argentina 0.6%			
[a] Grupo Clarin SA, B, GDR, Reg S	Media	18,505	$ 240,565
YPF Sociedad Anonima, D, ADR	Oil, Gas & Consumable Fuels	64,500	1,769,235
			2,009,800
Belgium 4.2%			
Anheuser-Busch InBev NV	Beverages	120,577	14,445,532
Brazil 2.6%			
Cia Hering	Specialty Retail	276,200	1,078,941
Estacio Participacoes SA	Diversified Consumer Services	297,700	1,722,856
Kroton Educacional SA	Diversified Consumer Services	1,011,300	3,865,980
M Dias Branco SA	Food Products	82,100	2,164,486
			8,832,263
Cambodia 0.3%			
NagaCorp Ltd.	Hotels, Restaurants & Leisure	1,582,000	1,171,451
China 22.8%			
[b] Alibaba Group Holding Ltd., ADR	Internet Software & Services	34,320	2,823,506
[b] Aluminum Corp. of China Ltd., H	Metals & Mining	2,799,400	1,415,653
[b] Baidu Inc., ADR	Internet Software & Services	32,500	6,470,100
Brilliance China Automotive Holdings Ltd.	Automobiles	7,713,700	12,040,762
China Construction Bank Corp., H	Banks	3,769,300	3,447,567
China Life Insurance Co. Ltd., H	Insurance	2,276,000	9,865,461
China Mobile Ltd.	Wireless Telecommunication Services	440,000	5,642,154
China Petroleum and Chemical Corp., H	Oil, Gas & Consumable Fuels	8,628,000	7,435,196
China Shipping Development Co. Ltd., H	Marine	5,560,300	4,210,582
Dah Chong Hong Holdings Ltd.	Distributors	2,853,900	1,483,712
Fuyao Group Glass Industries Co. Ltd., H	Auto Components	730,000	1,787,413
Guangzhou Automobile Group Co. Ltd., H	Automobiles	1,972,000	1,826,574
Industrial and Commercial Bank of China Ltd., H	Banks	3,145,300	2,495,416
[c] Inner Mongolia Yitai Coal Co. Ltd., B	Oil, Gas & Consumable Fuels	243,400	347,819
NetEase Inc., ADR	Internet Software & Services	12,903	1,869,193
PetroChina Co. Ltd., H	Oil, Gas & Consumable Fuels	8,244,600	9,178,807
Poly Culture Group Corp. Ltd., H	Media	262,300	1,043,901
Tencent Holdings Ltd.	Internet Software & Services	231,300	4,619,048
			78,002,864
Greece 1.2%			
[b] Alpha Bank A E	Banks	10,386,182	3,132,268
[b] National Bank of Greece SA	Banks	964,992	1,061,972
			4,194,240
Hong Kong 0.7%			
Dairy Farm International Holdings Ltd.	Food & Staples Retailing	187,433	1,623,170
MGM China Holdings Ltd.	Hotels, Restaurants & Leisure	429,200	702,077
			2,325,247
India 9.5%			
Biocon Ltd.	Biotechnology	545,046	3,954,182
Dr. Reddy's Laboratories Ltd.	Pharmaceuticals	132,420	7,415,917
Infosys Ltd.	IT Services	124,678	1,930,936
Oil & Natural Gas Corp. Ltd.	Oil, Gas & Consumable Fuels	297,100	1,447,212
Reliance Industries Ltd.	Oil, Gas & Consumable Fuels	138,200	2,174,602

Templeton Developing Markets VIP Fund (continued)

	Industry	Shares	Value
Common Stocks (continued)			
India (continued)			
Tata Consultancy Services Ltd.	IT Services	266,840	$ 10,709,798
Tata Motors Ltd.	Automobiles	511,667	3,495,068
Tata Motors Ltd., A	Automobiles	352,469	1,445,741
			32,573,456
Indonesia 4.1%			
Astra International Tbk PT	Automobiles	14,567,700	7,730,469
Bank Danamon Indonesia Tbk PT	Banks	6,199,400	1,999,432
Semen Indonesia (Persero) Tbk PT	Construction Materials	4,895,500	4,406,225
			14,136,126
Pakistan 0.9%			
Habib Bank Ltd.	Banks	1,550,000	3,264,359
Oil & Gas Development Co. Ltd.	Oil, Gas & Consumable Fuels	5,600	9,856
			3,274,215
Panama 0.5%			
Copa Holdings SA	Airlines	21,922	1,810,538
Peru 0.5%			
Compania de Minas Buenaventura SA, ADR	Metals & Mining	153,850	1,596,963
Philippines 0.9%			
Bloomberry Resorts Corp.	Hotels, Restaurants & Leisure	13,485,300	2,573,839
[b] Melco Crown Philippines Resorts Corp.	Hotels, Restaurants & Leisure	4,316,800	489,947
			3,063,786
Russia 0.9%			
Mining and Metallurgical Co. Norilsk Nickel OJSC, ADR	Metals & Mining	179,200	3,023,104
South Africa 10.6%			
[b] Impala Platinum Holdings Ltd.	Metals & Mining	352,750	1,574,414
Kumba Iron Ore Ltd.	Metals & Mining	56,434	700,253
MTN Group Ltd.	Wireless Telecommunication Services	303,331	5,703,351
Naspers Ltd., N	Media	116,330	18,119,789
Remgro Ltd.	Diversified Financial Services	443,443	9,328,851
Truworths International Ltd.	Specialty Retail	139,837	985,043
			36,411,701
South Korea 5.6%			
Bukwang Pharmaceutical Co. Ltd.	Pharmaceuticals	34,677	1,043,742
Fila Korea Ltd.	Textiles, Apparel & Luxury Goods	6,910	685,050
Hyundai Development Co.	Construction & Engineering	72,470	4,284,872
[b] Interpark Corp.	Internet & Catalog Retail	20,300	169,342
KT Skylife Co. Ltd.	Media	31,000	560,671
Lotte Shopping Co. Ltd.	Multiline Retail	8,082	1,692,713
Samsung Electronics Co. Ltd.	Technology Hardware, Storage & Peripherals	3,498	3,961,509
Samsung Heavy Industries Co. Ltd.	Machinery	104,120	1,585,551
[b] SK Innovation Co. Ltd.	Oil, Gas & Consumable Fuels	46,511	5,068,006
			19,051,456
Switzerland 1.2%			
Compagnie Financiere Richemont SA	Textiles, Apparel & Luxury Goods	28,178	2,291,666
[b] Oriflame Holding AG	Personal Products	104,570	1,689,796
			3,981,462

Templeton Developing Markets VIP Fund (continued)

	Industry	Shares	Value
Common Stocks (continued)			
Taiwan 4.2%			
Taiwan Semiconductor Manufacturing Co. Ltd.	Semiconductors & Semiconductor Equipment	3,143,000	$ 14,291,450
Thailand 6.8%			
Kasikornbank PCL, fgn.	Banks	268,500	1,500,932
Land and Houses PCL, fgn.	Real Estate Management & Development	8,858,800	2,358,154
Land and Houses PCL, NVDR	Real Estate Management & Development	4,347,600	1,138,014
PTT Exploration and Production PCL, fgn.	Oil, Gas & Consumable Fuels	785,300	2,531,727
PTT PCL, fgn.	Oil, Gas & Consumable Fuels	361,500	3,838,465
Siam Commercial Bank PCL, fgn.	Banks	770,100	3,541,868
Thai Beverage PCL, fgn.	Beverages	14,863,200	8,441,866
			23,351,026
United Kingdom 4.0%			
Unilever PLC	Personal Products	318,597	13,664,084
United States 1.5%			
Avon Products Inc.	Personal Products	821,469	5,142,396
Total Common Stocks (Cost $266,107,643)			286,353,160
[d] **Participatory Notes 1.0%**			
Saudi Arabia 1.0%			
[e] Deutsche Bank AG/London,			
Etihad Etisalat Co., 144A, 9/27/16	Wireless Telecommunication Services	66,819	600,400
Samba Financial Group, 144A, 9/27/16	Banks	257,955	1,795,127
[e] HSBC Bank PLC, Etihad Etisalat Co., 144A, 11/20/17	Wireless Telecommunication Services	102,495	920,966
Total Participatory Notes (Cost $4,159,691)			3,316,493
Preferred Stocks 7.7%			
Brazil 7.3%			
Banco Bradesco SA, ADR, pfd.	Banks	273,280	2,503,245
Itau Unibanco Holding SA, ADR, pfd.	Banks	1,289,010	14,114,659
[b] Petroleo Brasileiro SA, ADR, pfd.	Oil, Gas & Consumable Fuels	572,800	4,674,048
Vale SA, ADR, pfd., A	Metals & Mining	747,400	3,774,370
			25,066,322
Chile 0.4%			
Sociedad Quimica y Minera de Chile SA, ADR, pfd., B	Chemicals	94,287	1,510,478
Total Preferred Stocks (Cost $42,462,553)			26,576,800
Total Investments before Short Term Investments (Cost $312,729,887)			316,246,453

Templeton Developing Markets VIP Fund (continued)

	Shares	Value
Short Term Investments (Cost $22,975,019) 6.7%		
Money Market Funds 6.7%		
United States 6.7%		
[b,f] Institutional Fiduciary Trust Money Market Portfolio	22,975,019	$ 22,975,019
Total Investments (Cost $335,704,906) 99.0%		339,221,472
Other Assets, less Liabilities 1.0%		3,438,828
Net Assets 100.0%		$ 342,660,300

See Abbreviations on page TD-24.

[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. This security has been deemed liquid under guidelines approved by the Trust's Board of Trustees. At June 30, 2015, the value of this security was $240,565 representing 0.07% of net assets.

[b] Non-income producing.

[c] At June 30, 2015, 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.

[d] See Note 1(c) regarding Participatory Notes.

[e] 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, 2015, the aggregate value of these securities was $3,316,493, representing 0.97% of net assets.

[f] See Note 3(e) regarding investments in Institutional Fiduciary Trust Money Market Portfolio.

Financial Statements

Statement of Assets and Liabilities

June 30, 2015 (unaudited)

	Templeton Developing Markets VIP Fund
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	$312,729,887
Cost - Sweep Money Fund (Note 3e)	22,975,019
Total cost of investments	$335,704,906
Value - Unaffiliated issuers	$316,246,453
Value - Sweep Money Fund (Note 3e)	22,975,019
Total value of investments	339,221,472
Cash	139,707
Foreign currency, at value (cost $141,634)	130,099
Receivables:	
Investment securities sold	3,537,530
Capital shares sold	204,229
Dividends	1,415,724
Foreign tax	24,154
Other assets	161
Total assets	344,673,076
Liabilities:	
Payables:	
Investment securities purchased	330,127
Capital shares redeemed	819,233
Management fees	354,002
Distribution fees	107,039
Reports to shareholders	183,946
Deferred tax	134,531
Accrued expenses and other liabilities	83,898
Total liabilities	2,012,776
Net assets, at value	$342,660,300
Net assets consist of:	
Paid-in capital	$334,675,283
Distributions in excess of net investment income	(5,699,346)
Net unrealized appreciation (depreciation)	3,335,127
Accumulated net realized gain (loss)	10,349,236
Net assets, at value	$342,660,300

Statement of Assets and Liabilities (continued)
June 30, 2015 (unaudited)

	Templeton Developing Markets VIP Fund
Class 1:	
Net assets, at value	$ 99,951,190
Shares outstanding	12,904,441
Net asset value and maximum offering price per share	$ 7.75
Class 2:	
Net assets, at value	$233,398,446
Shares outstanding	30,343,732
Net asset value and maximum offering price per share	$ 7.69
Class 4:	
Net assets, at value	$ 9,310,664
Shares outstanding	1,205,734
Net asset value and maximum offering price per share	$ 7.72

Statement of Operations

for the six months ended June 30, 2015 (unaudited)

	Templeton Developing Markets VIP Fund
Investment income:	
Dividends (net of foreign taxes of $594,327)	$ 4,737,502
Income from securities loaned	32
Total investment income	4,737,534
Expenses:	
Management fees (Note 3a)	2,308,702
Distribution fees: (Note 3c)	
Class 2	309,414
Class 4	18,426
Custodian fees (Note 4)	75,651
Reports to shareholders	92,519
Professional fees	33,618
Trustees' fees and expenses	898
Other	12,235
Total expenses	2,851,463
Expenses waived/paid by affiliates (Note 3e)	(11,026)
Net expenses	2,840,437
Net investment income	1,897,097
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments	15,108,207
Foreign currency transactions	(376,081)
Net realized gain (loss)	14,732,126
Net change in unrealized appreciation (depreciation) on:	
Investments	(23,722,225)
Translation of other assets and liabilities denominated in foreign currencies	(11,609)
Change in deferred taxes on unrealized appreciation	(105,129)
Net change in unrealized appreciation (depreciation)	(23,838,963)
Net realized and unrealized gain (loss)	(9,106,837)
Net increase (decrease) in net assets resulting from operations	$ (7,209,740)

Statements of Changes in Net Assets

	Templeton Developing Markets VIP Fund	
	Six Months Ended June 30, 2015 (unaudited)	Year Ended December 31, 2014
Increase (decrease) in net assets:		
Operations:		
Net investment income	$ 1,897,097	$ 5,767,995
Net realized gain (loss)	14,732,126	66,732,640
Net change in unrealized appreciation (depreciation)	(23,838,963)	(106,645,647)
Net increase (decrease) in net assets resulting from operations	(7,209,740)	(34,145,012)
Distributions to shareholders from:		
Net investment income:		
Class 1	(2,280,023)	(2,319,775)
Class 2	(4,605,588)	(4,358,800)
Class 4	(178,865)	(173,399)
Net realized gains:		
Class 1	(12,555,712)	—
Class 2	(29,329,089)	—
Class 4	(1,242,906)	—
Total distributions to shareholders	(50,192,183)	(6,851,974)
Capital share transactions: (Note 2)		
Class 1	2,320,716	(18,560,195)
Class 2	21,510,897	2,280,393
Class 3	—	(33,674,042)
Class 4	(174,999)	(2,909,339)
Total capital share transactions	23,656,614	(52,863,183)
Redemption fees	—	68
Net increase (decrease) in net assets	(33,745,309)	(93,860,101)
Net assets:		
Beginning of period	376,405,609	470,265,710
End of period	$342,660,300	$ 376,405,609
Distributions in excess of net investment income, end of period	$ (5,699,346)	$ (531,967)

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 (1940 Act) as an open-end management investment company, consisting of nineteen separate funds and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP). 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.

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 are valued at the closing NAV.

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 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

Templeton Developing Markets VIP Fund (continued)

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. At June 30, 2015, a market event occurred resulting in a portion of the securities held by the Fund being valued using fair value procedures.

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 in 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 to earn additional income. 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 deposited into a joint cash account with other funds and is used to invest in a money market fund managed by Franklin Advisers, Inc., an affiliate of the Fund. The Fund may receive income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. Income from securities loaned is reported separately in the Statement of Operations. 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. If the borrower defaults on its obligation to return the securities loaned, the Fund has the right to repurchase the securities in the open market using the collateral received. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower. At June 30, 2015, the Fund had no securities on loan.

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, 2015, 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's 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 for certain dividends from foreign securities where the dividend rate is not available. In such cases, the dividend is recorded as soon as the information is received by the Fund. 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 U.S. GAAP. 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. There were no redemption fees for the period.

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, 2015, 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, 2015		Year Ended December 31, 2014	
	Shares	**Amount**	**Shares**	**Amount**
Class 1 Shares:				
Shares sold	656,065	$ 6,178,959	1,624,952	$ 16,226,245
Shares issued in reinvestment of distributions	1,921,727	14,835,735	229,681	2,319,775
Shares redeemed	(2,021,987)	(18,693,978)	(3,701,849)	(37,106,215)
Net increase (decrease)	555,805	$ 2,320,716	(1,847,216)	$(18,560,195)
Class 2 Shares:				
Shares sold	1,844,144	$ 17,240,930	7,755,421	$ 76,467,757
Shares issued in reinvestment of distributions	4,430,114	33,934,677	434,143	4,358,800
Shares redeemed	(3,190,230)	(29,664,710)	(7,896,683)	(78,546,164)
Net increase (decrease)	3,084,028	$ 21,510,897	292,881	$ 2,280,393
Class 3 Shares[a]:				
Shares sold			171,371	$ 1,697,483
Shares redeemed			(3,593,907)	(35,371,525)
Net increase (decrease)			(3,422,536)	$(33,674,042)
Class 4 Shares:				
Shares sold	38,594	$ 350,595	89,395	$ 875,146
Shares issued in reinvestment of distributions	184,886	1,421,771	17,219	173,399
Shares redeemed	(222,189)	(1,947,365)	(395,412)	(3,957,884)
Net increase (decrease)	1,291	$ (174,999)	(288,798)	$ (2,909,339)

[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 trustees of the following subsidiaries:

Subsidiary	Affiliation
Templeton Asset Management Ltd. (TAML)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager
Franklin Templeton Distributors, Inc. (Distributors)	Principal underwriter
Franklin Templeton Investor Services, LLC (Investor Services)	Transfer agent

a. Management Fees

The Fund pays an investment management fee to TAML based on the average daily net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
1.250%	Up to and including $200 million
1.235%	Over $200 million, up to and including $700 million

Templeton Developing Markets VIP Fund (continued)

Annualized Fee Rate	Net Assets
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

b. Administrative Fees

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.

c. Distribution Fees

The Board has adopted distribution plans for Class 2 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% and 0.35% per year of its average daily net assets of Class 2 and Class 4, respectively. Some distribution fees are not charged on shares held by affiliates. 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. Investments in Institutional Fiduciary Trust Money Market Portfolio

The Fund invests in 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, as noted in the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by the Sweep Money Fund. 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, 2015, there were no credits earned.

5. Income Taxes

At June 30, 2015, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	$346,262,959
Unrealized appreciation	$ 35,553,624
Unrealized depreciation	(42,595,111)
Net unrealized appreciation (depreciation)	$ (7,041,487)

Templeton Developing Markets VIP Fund (continued)

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, 2015, aggregated $92,822,396 and $115,092,009 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.

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 $2 billion (Global Credit Facility) which matures on February 12, 2016. 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 in the Statement of Operations. During the period ended June 30, 2015, 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.

Templeton Developing Markets VIP Fund (continued)

A summary of inputs used as of June 30, 2015, 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]				
Greece	$ —	$ 4,194,240	$—	$ 4,194,240
Russia	—	3,023,104	—	3,023,104
All Other Equity Investments[b]	305,712,616	—	—	305,712,616
Participatory Notes	—	3,316,493	—	3,316,493
Short Term Investments	22,975,019	—	—	22,975,019
Total Investments in Securities	$328,687,635	$10,533,837	$—	$339,221,472

[a]Includes common and preferred stocks.
[b]For detailed categories, see the accompanying Statement of Investments.

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 certain transactions accounted for as a sale for interim and annual reporting periods beginning after December 15, 2014, and transactions accounted for as secured borrowings for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. Management has reviewed the requirements and believes the adoption of this ASU will not have a material impact on the financial statements.

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
NVDR Non-Voting Depository Receipt

Tax Information (unaudited)

Templeton Developing Markets VIP Fund

At December 31, 2014, 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, 2015, 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	$0.0236	$0.2262
Class 2	$0.0236	$0.1999
Class 4	$0.0236	$0.1841

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.

This page intentionally left blank

Index Descriptions

The indexes are unmanaged and include reinvestment of any income or distributions.

For Russell Indexes: Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.

See www.franklintempletondatasources.com for additional data provider information.

Barclays 1-3 Month U.S. Treasury Bill Index includes all publicly issued zero-coupon U.S. Treasury bills that have a remaining maturity between one month and three months and are investment-grade rated, U.S. dollar denominated, fixed rate and nonconvertible.

Barclays U.S. Aggregate Bond 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.

Bloomberg Commodity Index comprises exchange-traded futures on physical commodities, which are weighted to account for economic significance and market liquidity. Prior to 7/1/14, the index was known as the Dow Jones-UBS Commodity Index.

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.

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.

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 6/30/15, there were 293 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 6/30/15, there were 71 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 6/30/15, there were 52 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 6/30/15, there were 113 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 China A Index is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance of companies incorporated in China that are listed on the Shanghai and Shenzhen Stock Exchanges, are quoted in the Chinese renminbi and entail foreign investment regulations.

MSCI China Index is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance of China, as represented by B, China H, Red Chip and P Chip shares.

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 World Index is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed markets.

Russell 1000® Growth Index is market capitalization weighted and measures performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Index is market capitalization weighted and measures performance of the largest companies in the Russell 3000® Index, which represents the majority of the U.S. market's total capitalization.

Russell 1000® Value Index is market capitalization weighted and measures performance of those Russell 1000® Index companies with lower price-to-book ratios and lower forecasted growth values.

Russell 2500™ Index is market capitalization weighted and measures performance of the smallest companies in the Russell 3000® Index, which represent a modest amount of the Russell 3000® Index's total market capitalization.

Russell 2500 ™ Value Index is market capitalization weighted and measures performance of those Russell 2500 ™ Index companies with lower price-to-book ratios and lower forecasted growth values.

Russell 3000® Growth Index is market capitalization weighted and measures performance of those Russell 3000® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 3000® Index is market capitalization weighted and measures performance of the largest U.S. companies based on total market capitalization and represents the majority of the investable U.S. equity market.

Russell Midcap® Growth Index is market capitalization weighted and measures performance of those Russell Midcap® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell Midcap® Index is market capitalization weighted and measures performance of the smallest companies in the Russell 1000® Index, which represent a modest amount of the Russell 1000® Index's total market capitalization.

Standard & Poor's® 500 Index (S&P 500®) is a market capitalization-weighted index of 500 stocks designed to measure total U.S. equity market performance.

Standard & Poor's®/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.

Shareholder Information

Board Review of Investment Management Agreement

At a meeting held April 14, 2015, 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 each Fund's investment performance and expenses with those of other mutual funds deemed comparable to the Fund as selected by Lipper. The Fund profitability analysis discussed the profitability to Franklin Templeton Investments (FTI) 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 FTI 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 its shareholders, except as noted later with respect to investment performance. The Board's opinion was based, in part, upon periodic reports furnished it showing that the investment policies and restrictions for each Fund were consistently complied with as well as other reports periodically furnished the Board covering matters such as the compliance of portfolio managers and other management personnel with the code of ethics adopted throughout the Franklin Templeton fund complex, the adherence to fair value pricing procedures established by the Board, and the accuracy of net asset value calculations. Favorable consideration was given to management's continual efforts and expenditures in establishing effective business continuity plans and developing strategies to address cybersecurity threats. 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 that 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 FTI 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 continued subsidization of money market funds.

INVESTMENT PERFORMANCE. The Board placed significant emphasis on the investment performance of each of the

Board Review of Investment Management Agreement (continued)

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, 2015, 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. In certain cases, income return was indicated 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 VIP Fund – The performance universe for this Fund, which has been in operation for 10 full years, consisted of the Fund and all multi-cap growth funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's comparative total return for the one-year period to be in the lowest performing quintile of its performance universe, and on an annualized basis to also 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 and steps management was taking to evaluate its highest conviction stocks, but found the Fund's absolute performance on an annualized basis as shown in the Lipper report to be acceptable.

Franklin Founding Funds Allocation VIP 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 seven years and the Lipper report showed its income return to be in the highest quintile of such Lipper universe for the one-year period, and on an annualized basis to also be in the highest 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 lowest performing quintile of such performance universe and on an annualized basis to be in the second-highest performing quintile of such universe for the previous three-year period, and to be in the second-lowest performing quintile of such universe for the previous five-year period. In assessing the relevance of such comparative performance, the Board noted the Fund is not actively managed and that its performance reflects those of the three underlying funds in which it invests in equal portions, which are not perfectly aligned to the investment style of comparative funds. The Board was satisfied with the Fund's performance as shown in the Lipper report.

Franklin Global Real Estate VIP 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 highest 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- and five-year periods, but in the lowest performing quintile of such universe for the previous 10-year period. Noting the marked improvement in performance in recent years, the Board was satisfied with the Fund's comparative performance as shown in the Lipper report.

Franklin Growth and Income VIP 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 quintile of its Lipper 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 middle performing quintile of its performance universe, and on an annualized basis, to be in the second-lowest performing quintile of such universe for each of the previous three- and 10-year periods, and the second-highest performing quintile of such universe for the previous five-year period. The Board noted management's attention to intensifying its focus on its highest conviction investments and found the Fund's comparative performance as shown in the Lipper report to be satisfactory.

Franklin High Income VIP 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 second-highest quintile of such performance universe, and on an annualized basis to be in the highest and second-highest quintiles of such universe for the previous three- and five-year periods, respectively, and to be in the middle quintile of such universe for the previous 10-year period. The Lipper report showed the Fund's total return to be in the lowest performing quintile of its performance universe for the one-year period, and, on an annualized basis, to be in the middle performing quintile of such universe for the previous three-year period, and in the second-highest performing quintile 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, noting the Fund's income objective.

Franklin Income VIP 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 quintile of such performance universe for the one-year period and to also be in the highest quintile of such universe for each of the previous three-, five- and 10-year periods on an annualized basis. The Lipper report showed the Fund's total return to be in the lowest performing quintile of its performance universe for the one-year period, and on an annualized basis to be in the middle performing quintile of such universe for the previous three- and five-year periods, and the second-highest 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 Large Cap Growth VIP Fund – The performance universe for this Fund consisted of the Fund and all large-cap growth funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's total return to be in the highest or best 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 Fund's historical underperformance and noted that a new portfolio manager was appointed for the Fund, effective May 1, 2014. In view of such discussions, and in light of the Fund's positive total return during the most recent year, the Board believed that appropriate action had been taken and that the Fund's comparative performance as shown in the Lipper report was acceptable.

Franklin Mutual Global Discovery VIP Fund – The performance universe for this Fund consisted of the Fund and all global 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 highest 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-, five- and 10-year periods. The Board found the Fund's overall comparative performance as set forth in the Lipper report to be satisfactory, noting that the three-year annualized total return exceeded 13%.

Franklin Mutual Shares VIP 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 second-lowest performing quintile of the performance universe, and on an annualized basis to be in the lowest performing quintile of such universe for the previous three- and five-year periods, and to be in the middle performing quintile for the previous 10-year period. The Board found the Fund's overall performance as set forth in the Lipper report to be unacceptable, but acknowledged management's explanation that the Fund is managed conservatively and the Fund's cash holdings detract from relative performance in sharply rising markets. The Board indicated it would continue to monitor the Fund.

Franklin Rising Dividends VIP Fund – The performance universe for this Fund consisted of the Fund and all multi-cap core funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's comparative total return to be in the middle performing quintile of the performance 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 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 acceptable, noting that its total return was above the median for the one-year period as well as the annualized five-year period.

Franklin Small Cap Value VIP Fund – The performance group for this Fund consisted of the Fund and all small-cap value funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's total return for the one-year period to be in the second-lowest performing quintile of such performance universe, and on an annualized basis to also be in the second-lowest performing quintile of such universe for the previous three-year period, and in the second-highest 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 acceptable, noting management's recent commitment of two additional analysts to support the Fund and the Fund's longer term positive returns.

Board Review of Investment Management Agreement (continued)

Franklin Small-Mid Cap Growth VIP Fund – The performance universe for this Fund consisted of the Fund and all mid-cap growth funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's total return for the one-year period to be in the second-lowest performing quintile of such universe, and on an annualized basis to 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 discussed with management portfolio adjustments and the commitment of additional resources to the portfolio team. Given management's attention to the Fund, the Board found the Fund's performance to be acceptable and noted that the 10-year annualized performance was less than 1% below the median.

Franklin Strategic Income VIP 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 quintile of such Lipper universe for the one-year period, and on an annualized basis to also be in the highest quintile of such universe during each of the previous three- and five-year periods, and in the second-highest quintile of such universe for the previous 10-year period. The Lipper report showed the Fund's total return to be in the second-lowest performing quintile of such universe during the one-year period, 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 performance as shown in the Lipper report.

Templeton Developing Markets VIP 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 also be in the second-lowest performing quintile of such universe for each of the previous three-, five- and 10-year periods. The Board found the performance of the Fund as set forth in the Lipper report to be disappointing and discussed with management the impact of the Manager's approach to investing, which was out of favor in current markets. The Board also discussed with management steps it was evaluating to improve the performance, including a more rigorous selling discipline. The Board concluded that continued monitoring is warranted in light of the Fund's underperformance, but did not believe a portfolio management change was needed at this time.

Templeton Foreign VIP Fund – The performance universe for this Fund consisted of the Fund and all international large-cap 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 lowest performing quintile of such performance universe and on an annualized basis to be in the second-lowest performing quintile of such universe for the previous three-year period, in the second-highest performing quintile of such universe for the previous five-year period, and in the highest performing quintile of such universe for the previous 10-year period. The Board was satisfied with the Fund's comparative investment performance as set forth in the Lipper report, noting that performance was in the highest or second-highest quintile in each of the previous seven years.

Templeton Global Bond VIP Fund – The performance universe for this Fund consisted of the Fund and all global income funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's income return for the one-year period to be in the highest quintile of such Lipper universe, and on an annualized basis to also be in the highest quintile of such universe for the previous three- and 10-year periods, and in the second-highest quintile of such universe for the previous five-year period. 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 also be in the highest performing quintile of such universe for each of the previous three-, five- and 10-year annualized periods. The Board was satisfied with the Fund's comparative performance as set forth in the Lipper report.

Templeton Growth VIP Fund – The performance universe for this Fund consisted of the Fund and all global 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 or worst performing quintile of such performance universe and on an annualized basis to be in the middle performing quintile of such universe for the previous three-year period, and the second-lowest performing quintile of such universe for the previous five- and 10-year periods. The Board found the Fund's comparative performance as set forth in the Lipper report to be acceptable, noting that the

Fund's performance had been in the highest quintile in three of the previous five one-year periods. They also observed that the Fund's annualized performance was within 1% of the median for the trailing five-year period.

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 each Fund's contractual investment management fee rate in comparison with the contractual investment management fee rate that would have been charged by other funds within its Lipper expense group assuming they were similar in size to the Fund, as well as the actual total expense ratio of the Fund in comparison with those of its Lipper expense group. The Lipper contractual investment management fee analysis includes administrative charges at the fund level as being part of a management fee, and actual total expenses, for comparative consistency, are shown by Lipper for the same class of shares for all funds within a particular Lipper expense group. 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 Small Cap Value VIP Fund, Franklin Growth and Income VIP Fund, Franklin High Income VIP Fund, Franklin Income VIP Fund and Templeton Global Bond VIP Fund. The Board was satisfied with the comparative contractual investment management fees and expenses of these Funds as shown in their Lipper reports. The contractual investment management fee rates and actual total expense ratios of each of Franklin Global Real Estate VIP Fund, Franklin Mutual Global Discovery VIP Fund and Templeton Developing Markets VIP Fund were above the medians of their Lipper expense groups, but in no case by more than 22 basis points. The Board found the comparative contractual investment management fees and expenses of these Funds as shown in their Lipper report to be acceptable. The contractual investment management fee rates of the following Funds were at or above the median while the actual total expense ratios were in the middle performing quintile: Franklin Flex Cap Growth VIP Fund, Franklin Large Cap Growth VIP Fund and Franklin Mutual Shares VIP Fund. The Board found the comparative expenses of these Funds as shown in the Lipper reports to be acceptable. The contractual investment management fee rates of the following Funds were at or above the median while the actual total expense ratios were below the median: Franklin Small-Mid Cap Growth VIP Fund and Templeton Growth VIP Fund. The Board was satisfied with the comparative expenses of these Funds as shown in the Lipper reports. The contractual investment management fee rates and actual total expense ratios for the following Funds were in the first or second quintiles of their expense groups, meaning they were among the least expensive of their peers: Franklin Strategic Income VIP Fund, Franklin Rising Dividends VIP Fund, Franklin Founding Funds Allocation VIP Fund, Franklin U.S. Government Securities VIP Fund and Templeton Foreign VIP Fund. The Board was satisfied with the comparative expenses of these Funds as shown in the Lipper reports.

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, 2014, 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 Fund's profitability report presentations from prior years. Additionally, the Fund's 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

Board Review of Investment Management Agreement (continued)

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 personnel, systems enhancements necessitated by fund growth, as well as increased leverage with the service providers and counterparties. 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 Founding Funds Allocation VIP 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 VIP Fund, their management fees contain breakpoints that extend beyond their existing asset sizes. To the extent economies of scale may be realized by the Manager and its affiliates, the Board believed the schedule of investment management fees provides a sharing of benefits for each Fund and its shareholders. The investment management structure of Franklin Rising Dividends VIP Fund provides for a fee of 0.750% 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, 2014, 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.

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 intentionally left blank

This page intentionally left blank

FRANKLIN TEMPLETON INVESTMENTS

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 08/15